PEANUT PRICE SUPPORT PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 10, 1993

Serial No. 103–3

Printed for the use of the Committee on Agriculture

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PEANUT PRICE SUPPORT PROGRAM

WEDNESDAY, MARCH 10, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m., in room 1300, Longworth House Office Building, Hon. Charlie Rose (chairman of the subcommittee) presiding.

Present: Representatives Baesler, Bishop, Clayton, Thurman, Stenholm, Peterson, Lewis, Kingston, and Goodlatte.

Also present: Representative E (Kika) de la Garza, chairman of the committee; Representative Hilliard, member of the committee; and Representative Everett.

Staff present: Vernie Hubert, chief counsel and legislative director; Fred J. Clark, deputy chief counsel; Joseph Muldoon, associate counsel; John E. Hogan, minority counsel; Glenda L. Temple and Jan Rovecamp, clerks; Keith Pitts, Joan Teague Rose, John Riley, Lynn Gallagher, and Stacy Steinitz.

OPENING STATEMENT OF HON. CHARLIE ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. Good morning. I want to thank everyone for being here for the first hearing of the newly formed Subcommittee on Specialty Crops and Natural Resources. As the administration finalizes subcabinet-level positions, the subcommittee will pick up its pace with hearings.

Before moving ahead with the hearing, I'd like to announce that the President's promised Northwest Forest Summit has been tentatively scheduled for April 2 in Portland, Oregon. As chairman and the ranking minority member, beside me, of the subcommittee that has jurisdiction over the Forest Service, we look forward to working with our colleagues and with the President to move on this pressing issue.

Today's hearing serves primarily as a review of the administration of the peanut program. Certainly, cost to the Government is an issue of great concern to this subcommittee, but I am very interested in hearing from our friends about how well the program is serving the needs of rural Americans. I'm very interested in investigating the impact that the importation of peanut butter and peanut paste may be having on the program.

Subsequent to the scheduling of this hearing, the General Accounting Office, at the behest of our colleague from New York, Mr. Charles Schumer, released a report that is highly critical of the peanut program. I understand that he also requested the GAO to do a study on the sugar program. It sounds like a candy interest to me. [Laughter.]

Therefore, we have asked the GAO to come before the subcommittee to testify about this study. I understand that many of today's panelists are aware of the findings of this report, so I ask that, if you wish, each of you provide the subcommittee with your own assessment of this report.

Dallas, I know the USDA closely followed the progress of the GAO report, so your comments are particularly of interest to this subcommittee.

At this time, I yield to the ranking minority member of the subcommittee, the gentleman from Florida, Mr. Lewis, for any opening statement he'd like to make.

Mr. LEWIS. Thank you, Mr. Chairman. I have no opening statement this morning. I look forward to working with you, as we all do, in furthering the specialty crops of this country. That's all I have.

Mr. ROSE. Thank you, sir.

Do any other members wish to make any opening comments?

[No response.]

Mr. ROSE. If not, our first panel is Mr. John Harman, the Director, Food and Agriculture Issues, Resources, Community, and Economic Development Division, General Accounting Office, accompanied by Dr. Carol Bray, Senior Economist, Food and Agriculture Division; Mr. Dennis Parker, Senior Evaluator, Food and Agriculture Issues; and Mr. Fred Mayo, Senior Evaluator, Atlanta Regional Office.

Gentlemen, you may proceed.

STATEMENT OF JOHN W. HARMAN, DIRECTOR, FOOD AND AGRICULTURE ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CAROL BRAY, SENIOR ECONOMIST, FOOD AND AGRICULTURE DIVISION; DENNIS PARKER, SENIOR EVALUATOR, FOOD AND AGRICULTURE ISSUES; AND FRED MAYO, SENIOR EVALUATOR, ATLANTA REGIONAL OFFICE, ATLANTA, GA

Mr. HARMAN. Mr. Chairman and members of the subcommittee, we are pleased to be here this morning to discuss our recently issued report on the peanut program, as you mentioned.

At the outset, I'll say that I will be summarizing my prepared statement, which has been provided to the subcommittee for the record, and I will also be, in my summary, diverting a little bit from that statement to talk about some of the things that have occurred since we issued the report.

At the outset, I want to point out that this is the first in a series of reports that we've been requested to do relating to commodity programs. You mentioned one, which was the sugar program. There are several others that are ongoing related to some other commodity programs.

Mr. ROSE. That's right, but those are the two Mr. Schumer asked you to do.

Mr. HARMAN. That's correct.

Mr. ROSE. Let's get that straight.

Mr. HARMAN. That's correct. In large part, because we were unable to answer some fundamental questions about these programs during the congressional deliberations on the 1990 farm bill.

Our efforts are intended to recognize the extent to which farm commodity programs have achieved their original objectives and to review how well these programs work in a constantly changing global market environment, an environment that radically differs from what existed when many of these programs were created. To the extent that they do not operate well in a global market-oriented system, our goal is to provide information that, first, will help Congress address program changes needed to be more competitive in a global marketplace; and, second, identify areas where Federal dollars and the Nation's resources can be used more effectively.

The work we have completed on the honey, wool and mohair, and dairy programs, which were done really over the last 10 years—there were several reports on those programs—are examples of situations where program goals and the environment in which they operate have changed drastically, but where little has changed in the program structure. While we have questioned the continued need for some of these programs, we've also recognized that it's just not a matter of eliminating programs, but also of helping to determine how the Federal role can and should change to make our farmers more competitive in global commerce.

It is in this context that we were requested to review the peanut program to identify how the environment has changed, what the impact of the program is on producers, consumers, the Government, and international trade, and then to make any suggested changes we thought were necessary.

In summary, our report points out that the program has generally stabilized the peanut supply and provided income support to producers. Like other agricultural operations, however, the number of peanut farmers has decreased by over 75 percent since 1950, while the size and productivity of peanut farms has increased dramatically, so that by 1991 a little over 20 percent of the peanut producers held over 80 percent of the available quota pounds. Because the yearly quota support price has been well above production costs since 1982, quota producers have the opportunity to receive a 51 percent average minimum return, after costs, for their quota peanuts.

Now, at this point, I'd like to digress just briefly to address what seem to be some concerns—at least, that have been written in the press over the last several days—about this figure and how we arrived at it; specifically, that we did not include land, the value of quotas, or equipment costs in our cost estimates.

I want to go on record at this point that we unequivocally stand behind that figure. Our analysis used the cost data that peanut producers provide USDA and which they, in turn, use to determine changes in the support price. In addition, we took the approach of not including land because the legislation specifies that increases in land cost not be included in these cost calculations. Also, if we

were to include the quota value, it would, in our view, in effect count the benefits of the program as a cost. We did include capital depreciation, which does account for machinery costs over time, as well as unpaid labor.

It is interesting to note that in commenting on a draft report, the USDA did not raise this point as an issue.

Returning to the points that we raised in the report, we also said that owners of more than half of the quota pounds do not grow peanuts with that quota. They benefit from the program because they receive income from selling or renting the quota to others.

Regarding Government costs, we said that direct Government spending on the peanut program has averaged about $34 million annually from 1986 through 1990. Now, we did not include 1991 in that figure, in which they sustained fairly hefty losses, because we felt at that point it may have been an aberration, and we didn't want to skew our figures in a way that may not be realistic. Hopefully, it is an aberration.

Also, U.S. consumers, because of changes in the program in the early 1980's, are spending from $300 to $500 million more each year for peanuts because of the program. In effect, program costs are transferred from the taxpayer to the consumer.

Finally, regarding the trade situation, it is uncertain as to the extent that the program results in additional U.S. exports, or the extent that the quantity of U.S. exports affects world prices, or, finally, the extent that producers would respond to price changes on the world market if the peanut program did not exist.

Substantial changes, as I mentioned, have occurred since the peanut program was created, including the concentration of benefits to a relatively small number of producers and more than half of the quota being rented by quota holders who do not grow peanuts. Other major changes are likely to occur in the future, such as agreements among major trading nations to liberalize commercial agricultural markets.

Because of these past and possible future changes, we have recommended that Congress begin to restructure the program to be more responsive to market forces. As part of such a restructuring, we recommended that the Congress provide for a period of transition to allow producers time to adjust their investment decisions, and here's where the consideration of land values and the quota comes into play, because we feel that producers have made these decisions based on a reliance on a Government program and the feeling that they were going to get a certain return for their investment, and they need time to recoup that return.

We are hopeful that the Congress, in considering changes to this as well as other commodity programs, will take a similar long-term view as we're trying to take here, anticipating the future and making necessary changes in a structured way that helps farmers face reality as it is, not as it was or they wish it were.

With that summary, Mr. Chairman, we'd be pleased to answer any questions you may have. I have with me this morning all the key players that were involved in developing the information, talking to producers, and coming up with that report.

[The prepared statement of Mr. Harman appears at the conclusion of the hearing.]

Mr. ROSE. Thank you. Let me ask you a couple of questions.

First let me ask, is Congressman Everett here? If he is, we want to welcome him to come up and sit with us, if any of you all see him come in, our new colleague from Alabama.

You know, you've said it a couple of times, and it caught my attention the first time you said it. Do you know how much a farmer gets for the peanuts in an 18-ounce jar of peanut butter?

Mr. HARMAN. I'm not certain. Maybe some of my colleagues know. I know it's probably somewhere around 40 or 50 cents, I believe, isn't it?

Mr. ROSE. Yes, 46 cents is our information.

Mr. HARMAN. That's approximately correct.

Mr. ROSE. And do you know what the retail price of that 18-ounce jar of peanut butter is today at the grocery store?

Mr. HARMAN. It depends on whether it's a generic brand or a brand name.

Mr. ROSE. What's the difference?

Mr. HARMAN. I know the generic is probably around $1.70. Is that right?

Mr. ROSE. That's right.

Mr. HARMAN. Unfortunately, I don't do much of the buying in my family, so I'm not real certain about it, but I know the brand name is significantly higher.

Mr. ROSE. I would think this would be part of your job, not part of your grocery shopping, to know what the price of commodities are that you investigate.

Mr. HARMAN. I realize I opened myself up to that comment, and it's well-taken.

Mr. ROSE. What about name brand peanut butter? From $2.25 on up, right?

Mr. HARMAN. That's correct. I was thinking really $2.50 to $3.

Mr. ROSE. And you've told the American public that they could save how many hundreds of millions? Was it $500 million?

Mr. HARMAN. It depends on the study, but it's $300 million to $500 million.

Mr. ROSE. Did you tell them that if they bought generic peanut butter they could also save $500 million?

Mr. HARMAN. No, we didn't say that, but obviously, from our viewpoint, the price of generic brands should also come down with that.

Mr. ROSE. Let's talk about that for a minute. What do you think would be a fair price for the farmer to receive for the peanuts in an 18-ounce jar of peanut butter? If 46 cents is too much for you, would 26 cents be about right?

Mr. HARMAN. Let me make it clear, Mr. Chairman, we're not saying in our report that $300 million to $500 million is an unreasonable amount or that that approach or that policy is not necessarily correct in and of itself. We have a number of commodity programs with the objective of stabilizing farm income, with the objective of stabilizing farm prices, and to the extent this program has done that, I think it's very good. Our recommendation and conclusion is based more on the concentration of the benefits and the position that this industry is in in terms of world competition, given what might happen or what could happen with these trade agreements.

I don't think I'm in a position to make a judgment on how much is a fair return. We have taken a position here that the support price is perhaps too high, given the production costs.

Mr. ROSE. How much too high, given the production costs?

Mr. HARMAN. Well, right now we're showing a 51 percent return. What we're actually calling for here is a move toward where farmers would respond more to market forces as opposed to setting the price and letting the Government control what the price they get is, to let the market more fairly determine that. So it's hard to say, and maybe Dr. Bray can help me on that.

Mr. ROSE. Well, let's say, just for the sake of argument—I believe in market forces, too, but let's suppose you decided 10 percent above cost of production was a fair level. That would be roughly a 40-percent decrease in what the farmer gets. A 40-percent decrease off of 46 cents is what?

Mr. HARMAN. About 20 cents.

Mr. ROSE. About 20 cents. Now, do you believe that the peanut butter companies would pass that 20 cents on to the consumer? Have you ever seen that happen in an agricultural commodity?

Mr. HARMAN. Oh, yes. I think that's happened in an agricultural commodity, but Dr. Bray, I think, can talk about some study that was done regarding that. What happens normally, though, is that as the price of the producer comes down, the price on the shelf does not come down quite as fast. Some reasons for that are the fact that there are inventories in there that they've paid more for.

We've found in other work related to other commodities that there are costs involved that may be increased—in other words, inflation increases the price for things like transportation, for things like packaging, for advertising, those types of things—so the consumer may not see what turns out to be the same price decrease to the farmer.

Mr. ROSE. Well, now, when you came out with your $500 million figure about how too much the American consumers were paying for peanut butter, you were assuming that the total reduction in the price support would reflect as a cheaper peanut and that that total amount would be passed on. You didn't put these things you just talked about in your estimation of what the savings to the consumer would be, did you?

Mr. HARMAN. No. In fact, we did not assume that those prices would be passed on to the consumer. I'm getting conversation in both ears here.

Mr. ROSE. Well, why don't you get a little advice, because you do say in this report that the American consumer is paying some $500 million too much for its peanut butter.

Mr. HARMAN. No, no, we didn't say they were paying too much. We were asked to determine how much——

Mr. ROSE. Well, you're saying that's what the quota costs them.

Mr. HARMAN. Exactly. No more——

Mr. ROSE. But I don't think you can—by your own estimate here, the only way you can show that is to show what would be passed on to the consumer if the support price were lowered, and you have just admitted that all these variables were not part of your estimation. So how could you come up with a figure that high for what the consumer—the consumer is not the manufacturer, it's the pub-

lic—the consumer was charged this exorbitant amount because of the quota system?

Mr. HARMAN. Let me just say that our definition of consumer, for purposes of this report, was not the final consumer of the product. It was that first buyer.

Mr. ROSE. Praise the Lord. Somebody write that down. [Laughter.]

Mr. HARMAN. That's also in the report, sir.

Mr. ROSE. Well, we need to highlight that. The press missed that.

Mr. HARMAN. That's correct. You're absolutely right. They missed that.

Mr. ROSE. Now we're getting to it. So the consumer is the person who buys the peanuts to make them into something, like candy or peanut butter.

Mr. HARMAN. That's correct, sir.

Mr. ROSE. Wow.

Mr. HARMAN. We highlighted that in the report, and we also highlighted it again when we responded to USDA, because they had missed that also in the report.

Mr. ROSE. Well, that's a beachhead.

Mr. HARMAN. And to be honest, Mr. Chairman, we don't consider that—that in and of itself would not lead us to a recommendation that this program be changed, the fact that the consumers are paying $300 million to $500 million more for these products, any more than we would say that the corn program or the wheat program should be changed because they're costing $2 billion, $3 billion, $4 billion to the taxpayer.

Mr. ROSE. Well, that was sure what Mr. Schumer wanted to see, I'll tell you that. Do you think the program is poorly administered or operated, or is your fundamental problem with the program that it has too much control over the market?

Mr. HARMAN. That's our fundamental problem. We do have, although we didn't include it in the report, the problem of the increased cost of the program in 1991, and that could be an effect, too, of how the program operates—such things as not allowing USDA to consider carryover stocks in determining the support price. Also, the fact that the support price has crept up may make it more difficult for them. When they do make mistakes in determining supply and demand, it can have more of an effect on the cost of the program.

Mr. ROSE. Thank you, sir.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Harman, did you take into consideration any other studies when you did your review of the peanut program, or did you just independently do it?

Mr. HARMAN. No, we looked, particularly in looking at the consumer cost issue, at a number of other studies. Dr. Bray can give you more details on that. There is a section in the report that discusses those studies, discusses how we used them and which ones we didn't use. I believe there were 19 studies that we looked at.

Mr. LEWIS. On page 1 of your report, you cite a substantial benefit to a small number of producers, and I would like for you to explain that 51 percent return. There seems to be some confusion on this. For example, the University of Georgia Cooperative Extension Service found that the average cost of production for 1991 was $570 per ton, and the average commercial price for commercial peanuts was $613 per ton. According to this calculation, the average profit for commercial peanuts in 1991 was $43 per ton, or a 7.54 percent return, not 51 percent. Why should there be such a——

Mr. HARMAN. Let me make it clear what that 51 percent is. That 51 percent was used in the report not to indicate that people are having an exorbitant return, and it wasn't a figure that was used to indicate return on investment, which is the type of thing that you're looking at, and we clearly say in there that we did not intend that to be a profit indicator.

Now, what it does represent is the same figures—these came from USDA. It's the same calculation that USDA uses in setting the support price. So in that calculation they do not determine or consider land values or the value of the quota, and we didn't, either. Now, maybe some of my colleagues are more familiar with that Georgia study, but I suspect that that study did include those types of economic costs.

We were just purely looking at, almost from an accounting standpoint, what's the cost of production, what's the price that you receive, and what does that difference represent, to indicate why the support prices increased over time, not to indicate that there's an exorbitant return here, although we do have some figures that show that the return, even when land value is considered and quota is considered, ranges anywhere between 26 and 42 percent.

Mr. LEWIS. Don't you think that using that method in indicating 51 percent is a rather misleading report?

Mr. HARMAN. Well, unfortunately, we can't control what the press writes, and the way it was used was to indicate that these people were making a 51 percent return on their investment. That is not the way it was intended to be used in the report, and that's not the way we used those calculations. To use something different, to us, would indicate that the support price—we were comparing the methodology that USDA uses to come up with the support price, so to use something different and to say you should use something different would seem, to us, to mean that your calculations of the support price are not correct.

Mr. LEWIS. Dr. Bray, could you explain to us why you did not integrate into your studies, for example, the Georgia Extension and others as well?

Ms. BRAY. The studies that we used for our analysis, as Mr. Harman said, are listed in the back of the report. What we were focusing on in these particular studies were economic studies that were looking at the impact of the program on the marketplace. In other words, we looked at a few more studies than are indicated here; however, the ones that we used to come up with our estimates of the consumer cost were basically studies that we felt, after reviewing and talking to the authors, were the most comprehensive in measuring the full impact of the program on the marketplace.

Mr. LEWIS. Thank you.

Thank you, Mr. Chairman.

Mr. ROSE. Mr. Baesler.

Mr. BAESLER. Thank you, Mr. Chairman.

Not knowing too much about the peanut program, I'm real concerned as to how your report affects all the other types of consumer products, and I'm reading from your report. The first headline I see is, "The peanut program provides high returns to a small number of producers." Being a novice in peanuts, I would assume that what you're saying there is the fact that people who produce peanuts are getting far too high of a return. So, therefore, when you say that wasn't what you intended for the press to say, I find that unacceptable, because knowing nothing about it, I would conclude that from your headline, not from your title.

The second part of the report says, "The peanut program costs U.S. consumers $100 million each year." Reading that without going any further, if I were the press or anybody else, I would assume from that statement you're saying basically the consumer out there—not the consumer who's making candy bars, the consumer who's buying peanut butter is what I would assume it would say—in fact is getting stuck because the Government has a peanut program. That's what I would assume from that conclusion.

My point here is that in answering the questions of the chairman and our ranking minority member, you keep on saying, "That wasn't what we meant." My concern is the approach taken suggests not only for peanuts, but all other consumer products, what anybody in the press or the public generally is going to conclude, as I have just from reading the headline, is that somehow we're getting stuck out here in consumer land because of our peanut program. You could say the same about cotton, the same about tobacco, the same about a whole lot of other things which I know a little more about.

So my point is, how many peanut farmers did you bring in and review before you made your report?

Mr. HARMAN. Let me just make one comment. The testimony you're referring to was just available this morning, so that wasn't what the press accounts were based on. They were based on this report, which goes into much more detail. Perhaps the titling of that particular side cap could have been done a little better, but I just want to make that clear.

Now, in terms of the people we talked to, I'll let the person who headed up our work in this area do that.

Mr. MAYO. Mr. Baesler, we talked with several peanut producers and some of the largest in the country. We formally interviewed at length eight peanut producers in Georgia and five in Texas. We also informally interviewed several producers when we attended some events sponsored by the Georgia Peanut Commission.

Mr. BAESLER. Did they agree with your 51 percent return?

Mr. MAYO. We didn't discuss what their rates of return were.

Mr. BAESLER. Did you ask them how much they make off of peanuts?

Mr. MAYO. Well, they admitted it was the only cash crop that they were making good money on, and we did discuss their cost-of-production figures, and many of them correlated very well with what USDA has. Some of them gave me some figures that were

way outside of what USDA has, but their yields were also much greater, so it depends on the particular cost structure of an individual peanut producer's business. That's the extent that we talked with producers.

Mr. BAESLER. The next question is, I think in answering the chairman's question, you said that the consumer you're speaking of is the people who buy the peanuts from these producers, not necessarily the consumer who buys the candy bars.

Mr. HARMAN. That's correct.

Mr. BAESLER. And you did not conclude, I believe from your discussion, that if the candy bar producers could cut their costs—in other words, we're not even talking about that. We're talking about the candy bar producers that are buying from the peanut farmer, period. We're not even getting to the shelf. We're not to the shelf yet at all. Is that right?

Mr. HARMAN. That's correct.

Mr. BAESLER. So it would be sort of misleading to the public——

Mr. HARMAN. You have no idea how much—that could be anywhere from zero to $500 million.

Mr. BAESLER. And you have no idea how much return the candy bar producer is getting on what he's buying the peanuts for from the peanut farmer.

Mr. HARMAN. No.

Mr. BAESLER. So would you or would you not agree that all the publicity is sort of misleading for the peanut farmer?

Mr. MAYO. Can I make a point here, sir? We did discuss this point with the largest processors in the country. We talked to their procurement officers, and we also met with representatives of a lot of the smaller manufacturers. What they told us, and I guess you have to take this with a grain of salt, is that they may not pass the cost directly on to the final consumer as it goes through the chain, but some of the things a lower support price might do is allow them to introduce new products lines that they already have on the shelf that they were not able to do because of the way the cost structure is in the industry.

Mr. BAESLER. Well, my concern is that we speak of endangered species, and I think the endangered species are a lot of our products, whether it's this or whether it's other things, and the public perception is not enhanced when the public reads in the paper, for whatever reason, that the guy is making a whole lot of money and we all are getting stuck.

My question was, and maybe you misunderstood it, would you agree that the news articles and what came out after your report could give the impression that "Mr. Consumer, you're getting stuck by the peanut farmer and his price support program"?

Mr. HARMAN. In my opinion, yes, they could leave that impression.

Mr. BAESLER. Thank you.

Mr. PARKER. May I add something, please?

Mr. ROSE. Go ahead.

Mr. PARKER. I'd just like to point out that in the 51 percent figure we keep using, we also have to keep in mind that, assuming that people are incurring the average cost, we are using the minimum support price, although producers tell us that they normally

get higher than the support price. We're also using the cost figure that's calculated by using 2,500 pounds per acre when we know that a large number of producers get higher yields than that.

Mr. BAESLER. But you do not include the cost of land, the cost of equipment——

Mr. PARKER. That's correct, and——

Mr. HARMAN. No, no, the cost of equipment is in there.

Mr. PARKER. Equipment is in there, as depreciation.

Mr. MAYO. And unpaid labor.

Mr. PARKER. And unpaid labor is included, and that's in the report.

Mr. BAESLER. That's all I have.

Mr. ROSE. I yield to Mr. Lewis for recognition of people on his side.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Lewis.

Mr. Harman, I hate to keep pounding on this 51 percent, but I've got to do it to you.

Mr. HARMAN. We anticipated that this morning.

Mr. KINGSTON. Let's just say you have a widget manufacturing plant and they have gross sales of $1 million, and they have labor costs, taxes, insurance, cost of goods in process, and inventory of $500,000, so you subtract that from your $1 million, and you get $500,000. You wouldn't call that net profit, would you? Because from that formula——

Mr. HARMAN. That's net profit before taxes.

Mr. KINGSTON. But from that formula we still have not deducted the cost of manufacturing the goods, the equipment, the land, and the quota, which——

Mr. HARMAN. If you're talking from an accounting standpoint, you would not deduct the cost of land in coming up with profit. Land is an asset.

Mr. KINGSTON. I think where the problem is and I think where the committee is so concerned is it said "net" return.

Mr. HARMAN. Net return after costs.

Mr. KINGSTON. I think just those three little letters, "net," is so misleading.

Mr. HARMAN. That's what tended to get people's attention, and it's not net return on investment. It is not that. So it doesn't include the economic cost of land, which, from an accounting standpoint, if you're trying to come up with profit, you wouldn't include land. You wouldn't include something like a quota, because that's an asset also. You wouldn't include total cost of equipment, because that is an asset that you have to depreciate. It does depreciate, and you take that depreciation as an expense.

Mr. KINGSTON. Well, you would include a franchise or a cost of good will or something like that. There's a bill right now, in fact, in front of Ways and Means about good will on intangible assets, and, not to get sidetracked, but you could say that might be similar to a quota. I guess the question is, USDA always uses that? That's the standard way? They don't include land?

The reason why I'm asking this is right now farmers have such a slim margin keeping them from just total bankruptcy that right

now most of the people who are going into farming either inherit the land or they've got a quota, or they don't get into farming, because you can't do it unless you inherit the land. So what I'm saying is that that's one of the problems. It might be a little bit more unique to farming than a widget manufacturer.

Mr. HARMAN. I understand exactly what you're saying. I think that's the concern with our 51 percent figure, and the press didn't go back and pick up the fact that we said we ought to transition into this. That's specifically why we said it, because new people coming into farming have to pay for that quota. The people that had that quota, that either inherit it or they've had it for a number of years, don't have that initial investment cost. So the return on their investments is much higher than it is for somebody that's coming into farming and has to buy the land, which has incorporated into it the value of the quota and also the price of the quota, which are substantial. To say that those people have a 51 percent return on investment is just incorrect. That's not what we said, and that's not what we intended to say. Their return would be, I would guess, somewhat lower than that.

Mr. KINGSTON. I see your hand, Mr. Mayo.

Mr. HARMAN. He's kicking me under the table, too, sir. [Laughter.]

Mr. KINGSTON. Maybe this will tie into it. Now, you said a second ago or a couple of minutes ago that there are returns of 26 and 41 percent?

Mr. HARMAN. I'll let him talk about that.

Mr. KINGSTON. I wonder if we still have that problem with the land being in there, even though I know you're saying from accounting purposes, but I'm just saying let's forget the accounting world and let's get into the real world.

Mr. HARMAN. You want to go into economic costs.

Mr. KINGSTON. Yes.

Mr. MAYO. Let me say a few words about that. The audit team labored quite considerably over how best to present the cost of producing peanuts. We discussed using total economic cost, which includes land and quota, and we discussed using just fixed and variable expenses, which covers your short-run costs, and then we decided that we should use the USDA method, which is the method they use to set the support price, which is somewhat supported by the peanut legislation. The peanut legislation says that you cannot include increases in the cost of land. They did put land into the rate base when they enacted the 1981 farm bill, and it had been carried forward there. So we felt this would be the best way to do it, and we did have quite a bit of debate among ourselves about how to do it, because we knew it was going to be an issue.

I think the decision that we need to make as a government is, how much return should the Government guarantee? Should we only guarantee the short-run costs, or should we add some more element of economic opportunity costs?

Mr. KINGSTON. I hate to interrupt you.

Ms. Bray, I see your hand. The yellow light is on, and I want to ask one other question. Believe it or not, it's not on the 51 percent.

In terms of looking at the American farmer situation compared to a farmer in another country who doesn't have the workers comp,

the EPA laws, wetlands, endangered species, did you ever try to put a price on how much more the American farmer incurs in production costs versus his foreign competitor? I know that's real hard to do, but did you ever study that?

Mr. MAYO. No, but some of the producers did discuss it with us, and they felt that we have a higher cost structure in the United States, and I probably would not disagree with that.

Mr. HARMAN. I think that's the key. We're not saying here that you transition to a completely "free" market-oriented system. I don't think in agriculture we're ever going to do that, and I'd suspect no country is ever going to do that. We're trying to say let's try to find a way that makes it less intrusive and makes a farmer react more to market forces and get the Government in some other way that makes sure that we reach these objectives and compensates farmers when there are differences, because there are going to be differences between countries and what they do. If we think we're ever going to have completely free and open markets, we're kidding ourselves.

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. ROSE. Thank you both. The gentleman's time has expired.

Mr. Bishop.

Mr. BISHOP. Thank you very much, Mr. Chairman. I'm happy to have an opportunity to address this panel.

I read the report with great interest, coming from a very, very large peanut growing area, and discussed it with many of my peanut farmers and people in the peanut business. One thing that stuck out was what appeared to me to be a lack of integrity, really, about the report and the way that the figures are used. It seems to me almost as if you're playing fast and loose.

For example, you include in the annual cost to the Government, which you allege to be $35 million annually, a $4 million item, which is for overseas market promotion, as a part of the loss. My question to you is how you can claim that this $4 million amount is a cost to the peanut program when it's in fact an appropriation that's supported not only by the House, the Senate, and the previous administration, but the current administration as well. It's a separate line item, and it goes for all agricultural products, but you include it as a loss caused by the peanut program. Now, that's not honest, is it?

Mr. HARMAN. That's a cost to the Government, not a loss to the peanut program. Also, that's only that part of that program that goes toward promoting peanuts. The question we were asked is, what is the cost to the Government of the whole peanut program, in a more generic sense, including promotion and administration and that sort of thing?

Mr. BISHOP. Well, it just suggests to me that you're not being entirely accurate and that the report is not an objective presentation, that it really is designed to give a skewed appearance.

Mr. HARMAN. Well, we're sorry, and we don't intend it to be that way. That's why we broke those costs out, to make sure that people understood exactly what was included in there.

Mr. BISHOP. The second line of inquiry that I'd like to pursue is regarding the objectives of your report. You did not indicate, particularly with the context of what is happening in farming commu-

nities, but particularly in peanut areas, which are some of the poorest areas in our country, the ramifications that your recommendations would have if they were adopted.

For example, in my area the value of land is heavily tied to the peanut program. You've got the seed and feed people that are directly tied to it. You've got the farm bankers that are directly tied to it that bank the crops. You've got the crop insurance people that write the insurance. You've got the fertilizer people, the mechanics, the tractor people. All of these economic interests to a rural community are directly tied to that program, and if your recommendations are followed, we're going to have some ghost towns, aren't we?

Mr. HARMAN. I'm glad you asked that question, because you're exactly right, and that's why we called for a transition period. Unfortunately, as we do this work, it's very difficult in one job to address all those issues you've just discussed. We do have another line of effort that we're doing right now, and it's really our own initiative, but we've been coordinating with both the House Agriculture Committee and the Senate Agriculture Committee on looking at this question of rural development and what happens when the economic base of an area changes. Now, that's broad, and that's really what you're saying. You're saying, "What's going to happen if we pull away this agricultural economic base?"

Now, there were two things that concerned us when we looked at our findings, and it wasn't the consumer cost as much as it was, as I said earlier, the fact that many of the benefits are being concentrated into a relatively smaller and smaller number of producers. So to what extent are we really helping these smaller——

Mr. BISHOP. But isn't that the case in our business community? Isn't that the case also with our larger farming community?

Mr. HARMAN. That's the case in agriculture in general, you're correct. So you're raising a question that——

Mr. BISHOP. But that's the case in business, because we've got mergers in corporate America. I don't want to use all my time on this. I've got one more question I'd like to ask you now.

Mr. HARMAN. Go ahead. I've got much more I could say on that, but go ahead.

Mr. BISHOP. My final question is this. My observations are that you're basing your report, to a large extent, on the price to consumers, yet, as has been indicated, you're including people other than the mom and the pop who go to the grocery store to purchase peanut products as consumers. Now, I've got two candy bars here that were purchased this morning. One of them is a Hershey Bar with strictly milk chocolate. The other one has peanuts in it. They both cost 55 cents. Are you suggesting to me the price of the one with the peanuts is going to be reduced if your recommendations——

Mr. HARMAN. No, not with candy bars. It's very unlikely. There aren't enough peanuts in it to make any difference.

Mr. BISHOP. It seems to me that somebody else other than the recipients and the beneficiaries of the peanut program are the ones that are getting rich off of this.

Mr. HARMAN. The question would be, as the chairman suggested earlier, what's going to happen to things like peanut butter? But, again, I'd like to get away from this. I know by being asked a ques-

tion and by giving the answer, we put ourselves in a position that makes it look like $300 million to $500 million—the question is not whether $300 million or $500 million is being paid by the consumer. The question is, is that cost worth the benefit? That's one question. We've said in the report that it has stabilized prices. It has brought income support to producers, so to that extent it has.

But the main question to us then becomes whether or not the concentration of benefits is a wise thing, and given what's happening in the world with global markets, do we need to start looking at this program and start moving it in a way that anticipates that and transition us to the more market orientation?

Mr. BISHOP. But isn't it true, Mr. Harman, that of all of the farmer support programs, including the peanut program and all the others, are five-tenths of 1 percent of our national budget, and that that five-tenths of 1 percent really goes, to a large extent, to keep our national trade from being any worse than it is? You're talking about a $35 million investment, which, the way I look at it, in comparison to the other part of our budget, our part being less than five-tenths of 1 percent, we're truly talking peanuts.

Mr. HARMAN. Well, if you're talking about the cost of this program to the Federal budget, it's obviously not very much, and it's not something that is going to get a lot of attention, I think, in terms of the budget deficit. But I think what we would argue is you have to consider the total cost to the economy, which would include what it's costing the consumer.

Mr. BISHOP. Finally, it seems to me that this report and what you have done is really just to try to add credence to what the enemies of the peanut program have been trying to do for years and years and years, and this is just, as I see it, the first volley in what I call the peanut war.

Mr. ROSE. The gentleman's time has expired. If we have time, we'll go back around again.

Mr. Bishop made an interesting point about that $4 million that was added to the cost of the program. He's talking about the promotion program, right?

Mr. HARMAN. That's correct.

Mr. ROSE. That money is paid for the promotion of peanut products abroad. Is that right?

Mr. HARMAN. That's correct.

Mr. ROSE. And the companies actually do the promoting, don't they?

Mr. HARMAN. That's correct.

Mr. ROSE. So very likely the $4 million that you tacked onto the cost of the program goes to the M&M Mars Company and to Peter Pan.

Mr. HARMAN. That's correct.

Mr. ROSE. Thank you.

Mr. Bishop, you were exactly right.

Mr. HARMAN. That's not a cost of the peanut commodity program.

Mr. ROSE. But you didn't say in your report that that money goes to the very people who like what you're concluding in your report. I don't think that's fair. I think you should have pointed out that that $4 million goes to the candy and the peanut butter manufac-

turers of America and does not have anything to do to reflect negatively on the peanut farmer. The way it's written, it reflects negatively on the peanut farmer.

Mr. HARMAN. Well, I don't——

Mr. ROSE. You disagree. I understand.

Mr. HARMAN. No, I don't necessarily disagree. I think your point is well-taken, but all we were trying to do there is just break down that cost, and it is a cost to the Government of the total effort to aid peanut farmers. Of course, you have to argue—no, I'm not going to make that argument. [Laughter.]

Mr. ROSE. You can argue with Mrs. Eva Clayton, who's from North Carolina's premier peanut district.

Mrs. Clayton.

Mrs. CLAYTON. Mr. Harman, help me out. I do represent probably the best peanuts in the country, but I'm not the most informed legislator on peanuts. But I am pretty versed on how reports get done and the assumptions of them. This report was made as an inquiry, I gather, and in your response to the inquiry, you divided the report into three areas to respond to the inquiry.

Mr. HARMAN. That's basically correct.

Mrs. CLAYTON. Help me understand, did you work from the assumption that the price support was invalid in the beginning and, therefore, you went out just to prove it?

Mr. HARMAN. No, we didn't.

Mrs. CLAYTON. There are no assumptions in here? You responded to the question, and you divided the report into three areas, so what's underlying——

Mr. HARMAN. We were asked basically for several things. One was just to look at the peanut program and give a history of what's happened to it. What is the environment now compared to what the environment was back when it was created and as time passed? Then we were asked to assess the impact of the program on producers, consumers, the Government, and international markets. That basically is what we were asked to do, and then any conclusions and recommendations we might have off of that were based on what we found there.

Mrs. CLAYTON. In assuming the assessment on the producers, what were the underlying assumptions?

Mr. HARMAN. You mean in terms of whether or not——

Mrs. CLAYTON. Yes.

Mr. HARMAN. We don't start off with assumptions that something is good or bad or that we have some hypothesis.

Mrs. CLAYTON. Well, you know, in an accounting report, you have to have some underlying assumptions to precede your inquiries. What assumptions did you have?

Mr. HARMAN. I'm not quite sure I understand your questions. We have certain questions that we are trying to address. Now, if that's assumptions, the questions we were trying to address are specifically, what is the impact on producers, and then we break that down into the different parts of that question and then address those, and we have what's a plan.

Mrs. CLAYTON. All right. What were the underlying questions in trying to assess the cost to the producers?

Mr. PARKER. Some of the assumptions that we made were, first of all, that quota producers would receive from the sale of their peanuts at least the quota support price for that given year, and also that they would incur costs that were equal to the average costs that are calculated by USDA based on the data that they receive from the producers. Some of the other assumptions that we made were that—Fred, do you want to go ahead on some of these other ones?

Mr. MAYO. One of the first things we did was look at the objective of the peanut legislation, which says that essentially the primary objective is to provide income support to peanut producers. So the first question we asked was, where is the money going, and who's getting it? That's how we determined the concentration figures to see who was actually getting the money.

Mr. ROSE. Will the gentlelady yield for 1 second?

Mrs. CLAYTON. Yes.

Mr. ROSE. I think she's onto something here, and I don't think you're answering her. The assumptions that you used were Mr. Schumer's assumptions, and they were written out in the questions that he sent to you. He assumes that the peanut program gives too much profit to the peanut farmer. Isn't that what you used——

Mr. HARMAN. No, I wouldn't agree with that at all. I mean, obviously, when you look back on it, you can make that allegation, but when we went into it, we had what we thought were very well-developed and simple kinds of questions in a broad sense of this program, and they're similar kinds of questions we're asking also on other programs.

Mrs. CLAYTON. Well, help me out, Mr. Harman. How did you then get to the fact that—this is on page 1—"Furthermore, owners of more than one-half of the quota pounds, who do not grow peanuts themselves with that quota, benefit from the program"? Where's the data to support that?

Mr. HARMAN. Mr. Mayo, go ahead.

Mr. MAYO. The Congress passed a provision in 1967 that the owners of peanut allotments—now quota—could either rent or sell if they chose not to grow them themselves, and so one of the questions we asked was, how many people are doing this? So we matched up the names of the producers who shared in the quota from the peanut marketing cards against the owners of the farms, and we determined from that the number who are actually renting out their quota to the larger growers rather than growing themselves.

Mrs. CLAYTON. The other question I have is, help me understand more what you want in your recommendation to be more market orientation. What are you trying to achieve there?

Mr. HARMAN. Well, what we're saying is that as we move into these trade agreements—and there is going to be more and there has been more of a move to a world market, and we've tended to lose market share in some of these areas——

Mrs. CLAYTON. Should the peanut farmer be able to make a profit, though, as they move into the more market orientation?

Mr. HARMAN. I'm sorry, I didn't hear.

Mrs. CLAYTON. Should the peanut farmer be able to make a profit as they move into the more market orientation?

Mr. HARMAN. Should they be guaranteed a profit?

Mrs. CLAYTON. Well, should they be able to make one. I didn't say guarantee. You used that word.

Mr. HARMAN. Well, sure, they should be able to make a profit. Either that, or I guess you could say in a truly free market situation, if we can't make a profit, then we probably are not using our resources correctly. But on the other hand, we can't ever anticipate that we're going to have a completely free market situation. I mean, that's been the basis of a lot of our farm program legislation over the years, to support our farmers, because we see that as a basic national need.

So, yes, I would agree they should be able to make a profit, and we should be able to transition into this and not wait until, say, 15 years from now until some trade legislation is passed and all of a sudden we've got to make a transition and we're really in a tight spot.

Mrs. CLAYTON. Mr. Chairman, just one final question.

Do you have a general philosophy on quota support prices? Do you have a general feeling about that?

Mr. HARMAN. On quota support prices?

Mrs. CLAYTON. Yes.

Mr. HARMAN. Dr. Bray may be able to answer that more from an economic standpoint, but from a Federal policy standpoint, I don't have a particular philosophy on it except to say that any time the Government intrudes in any way into the market, it's going to cause some ripples that have to be managed. That's what's happened really over the years of farm programs. We caused those ripples, and then we tried to manage the ripples.

Mrs. CLAYTON. Dr. Bray, do you have a comment about that?

Ms. BRAY. No, I think John Harman stated the point. The point is that basically the quota support price is resulting in a high price for peanuts in the market, and whenever that happens, you're going to end up with distortions in terms of production and in terms of how the peanuts are marketed.

Mrs. CLAYTON. So we would be better off in America if we didn't have the support price for peanuts? Peanut consumers would be better off, are you saying?

Ms. BRAY. I think our argument is that the support price is set 51 percent above the average calculated cost of production, and it has a clause that allows that price only to go up and never to go down, and, basically, if anyone in the marketing chain is paying this kind of price, it's going to get passed on through the marketing chain in some form or another.

Mrs. CLAYTON. Thank you.

Thank you, Mr. Chairman.

Mr. ROSE. Mrs. Thurman.

Mrs. THURMAN. Mr. Chairman, I really don't have any questions. Just to kind of move along, because I know we get real busy around here in a little while, I'm going to hold my questions, because I want to hear from the people that are actually growing the peanuts.

Mr. ROSE. Thank you, ma'am.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

The $494 world price that you quote based on 1982 through 1989, is that world price determined strictly on market price forces, free and unhindered from any government interference or help or assistance in any shape, form, or fashion by any world government?

Mr. HARMAN. I can get into specifics, but the straight answer is no.

Mr. STENHOLM. The cost of the program becomes a problem, and we're going to hear some testimony a little bit later. You didn't get into the 1991, but there was an $80 million loss on the 1991 crop, and you quote other losses in your study. What's causing that loss?

Mr. HARMAN. One of the reasons in 1990 is a reaction to the drought and basically USDA not setting the support price at a correct level and anticipating the proper demand. As a result, the Government ended up taking a lot of stock. Dr. Bray may be able to add a little bit to that.

Ms. BRAY. Our understanding of the situation is essentially that we had a shift in demand as a result of the drought. Demand typically doesn't change a whole lot in the peanut market, so the assumption was, I think, that demand would go back to where it had been prior to the drought. In addition, the quota was then set at that level, when in fact demand didn't move back to where it had been before the drought.

In addition, it's our understanding that if a peanut farmer doesn't produce crop under the quota, isn't able to deliver a crop, they're able to carry over that quota to the next year, and that carryover quota is then not counted in the calculation of the quota.

Mr. STENHOLM. Why isn't it? Why did USDA not use those factors in determining and setting the quota, in your opinion?

Mr. HARMAN. It's legislated.

Ms. BRAY. I believe that it's in the law. Again, USDA would be in a better position to answer that.

Mr. STENHOLM. I want that same question asked of the USDA representatives, but in your judgment, it's a result—the USDA was correctly interpreting the law, and for other factors to be considered, we would have to change the law? Is that your statement?

Mr. HARMAN. For the carryover stocks, yes.

Ms. BRAY. Right.

Mr. STENHOLM. That would require a law change?

Mr. HARMAN. That's our understanding.

Mr. STENHOLM. A final point on this, because I think clearly we've got a problem with the manner in which we're setting the quota allotments. We're boosting it on the up side, and that's creating cost, and that's not, I don't believe, the intent of legislation. But if you concur, then obviously we may have a problem there.

My concern, in listening to the other testimony concerning the cost and the bias and Mr. Baesler's question a moment ago in which you said the peanut program provides high returns to a small number of producers, that that was in the printed sheet we only saw today—it was also in the blue book, very clearly defined. So the questions that have been pointed out, there is somewhat of a bias established in that, and that's bothersome to me.

You're suggesting that the peanut program should lower the quota price and go to a more market-oriented system. Have you

also looked at the other crops in which we have done that and seen the results of that? Have you analyzed corn and wheat?

Mr. HARMAN. We're in the process of looking at corn. Well, we're looking at the corn issue mostly from the flex acres side and the question that was put in the 1990 farm bill. We are looking at wheat in several different respects. We have a report that will soon be coming out that, if you think of it in terms of this peanut report, it's saying what's happened to wheat over the years and why things are the way they are. Then there's another couple of efforts that are looking at where the benefits are going and what happens as a result of changes to the program. So, yes, we are looking at other commodities.

Mr. STENHOLM. I am, too, and that's what bothers me about some of the assumptions that you make in this report. The assumption that we can continually move our price down chasing a fictitious world market, "fictitious" being defined as a market-centered, market-oriented, market-determined world price, when we all know, as you say in your own statement—now, I'll give you credit. You say in your own statement that you've got problems with that, but that doesn't get the emphasis. The emphasis gets on the other things that we've spent a lot of time talking about. But the pursuit of a more market orientation for prices continues to push them down, and we're heading for a problem.

And this concern about the manufacturers, what they get, et cetera, when you look at other commodities in which we have pursued that world market with market loans and other things to try to chase that market down, the consumer price continues to go up. The consumer price continues to go up, and the producer price goes down. As we look ahead to the 1995 farm bill, which we're going to start with this year's budget reductions, it bothers me when the press takes—and I'm not picking at you quite as much as my other colleagues did, but pretty close——[Laughter.]

With what you're saying in this report, this bias tends to get out into the media and creates a totally unfortunate conclusion.

Mr. HARMAN. Well, to the extent we used that language and it implies that there's a high return on investment, that definitely was not our intent.

Mr. STENHOLM. I hope you would be more careful in the future by how you write it, because I'm like Mr. Baesler. I mean, you don't have to know much about the program to read what the conclusions would come to. I would hope that the press that writes on this would take a look at this world market price phenomenon before we continue to push too far in that direction.

Mr. HARMAN. The problem is you really don't know what a true world market price is.

Mr. STENHOLM. Exactly.

Mr. HARMAN. I've stopped using the word "market-oriented." Maybe it's a subtle difference. I don't know.

Mr. STENHOLM. John, that's precisely the point. You say in this blue book that the world market price was $494 and the producer price was $714, which leads anybody to a conclusion that that is a usury profit. That's the conclusion you come to, and in the same breath you say, "We really don't know about it and how it happened." That bothers me.

Mr. ROSE. Thank you, Mr. Stenholm.

Mr. Harman, would you say that the Communist Chinese Government is a free market system? I've got a letter here from the Quing Dow Import Company saying, "We'll be happy to supply you with peanut butter. According to our information, you are a successful peanut butter manufacturer, and if you have planned to reduce the cost of making peanut butter or to increase the production of peanut butter, then we hope we may enter into business relations of mutual interest. Being a peanut manufacturer in China, we would like to talk to you."

Now, what do you guess Chinese peanuts cost per ton?

Mr. HARMAN. About $200 or so. I'm glad you didn't make me answer the first question.

Mr. ROSE. Go ahead.

Mr. HARMAN. You know, part of our point here is that from an economic standpoint—and this is true any time where the Government intrudes into the market—you end up with less efficient producers producing crop and more efficient producers who are unable to enter the market for one reason or the other. That's a lot of what we're talking about here. I think you still have the Government——

Mr. ROSE. Are you talking about China or America?

Mr. HARMAN. Oh, no, America. And the Government still has to be alert to situations like you're talking about where foreign countries are subsidizing, in one way or the other, their product unfairly and puts us in an unfair competitive position. We've got to be able to do that.

But I think our position, after reviewing some of these commodity programs, is we feel uncomfortable. We really feel uncomfortable with the way the farm programs are, first, letting inefficient producers produce at the expense of more efficient producers. That's one. The other one is, and this comes more from the corn, which you who have been a member of this committee for a number of years are well aware, the inability to switch over from corn to, say, soybeans because of the economic benefits that the program gives to corn growers.

So all we're saying here is that we need to look for some transition and we need to do it in a way that provides a period of time to make it.

Mr. ROSE. We need a lot of transition in all departments of the Government. Maybe even yours. [Laughter.]

Mr. HARMAN. And we're going through that, Mr. Chairman, I'm afraid.

Mr. ROSE. Mr. Bishop has a question.

Mr. BISHOP. I was concerned with the qualitative kinds of results that would result from your recommendations if they're implemented, going to this world market system, as it will affect the people who live in peanut-growing areas and who benefit from the peanut program.

If you go to this world market system and go through the transition, which ultimately is going to be intertwined with these trade agreements, you will reduce the percentage of the American market that consists of domestic peanuts, and you will introduce many more foreign Chinese, Argentine, Mexican peanuts, which will,

therefore, result in a smaller share of the market by American peanut producers, which means that the individuals in those communities that are peanut-growing communities will be out of work. They will simply not have the quality of life because they won't have the jobs. Those peanut-producing jobs are going to be in Mexico, China, and Argentina, resulting in a greater cost to the Government in welfare payments——

Mr. HARMAN. Are you making an assumption that those countries can produce the peanuts cheaper than we can?

Mr. BISHOP. Well, if Mexico pays 69 cents an hour and we pay our minimum wage, it seems to me that that's pretty clear.

Mr. HARMAN. That definitely puts us at a disadvantage. We don't have——

Mr. BISHOP. Wouldn't your conclusion be that? How would you answer the question you just asked me? Wouldn't that put us at a disadvantage?

Mr. HARMAN. Yes, I would say it would put us at a competitive disadvantage. Now, whether we have other means and other advantages, such as mechanization, that may not be available to Mexico—I mean, you're really into a deeper question, and I really wish we had—we haven't done the work to get enough at that question. That is a very key question.

Understand, it's very difficult for us to come up—in fact, in the dairy program, we have taken the position any number of times that we should tie the support price to market, which would mean you'd have a tremendous change in dairy producers and where they're producing milk.

Now, I've said that a number of times. The last time I was up and testified on that issue, I had a gentleman to the chairman's left from Kansas that basically said I was crazy, and that's when we started really trying, when we ran into that situation, to say we need a transition, and we don't have it. Right now we don't have it. We don't have a rural development program or a transition program that when we have areas which can't compete, even if we only had a domestic market, they can't compete with more efficient producers somewhere else, how do we move those?

I mean, you're asking a very good question that really goes beyond our purpose in this report that we're trying to deal with.

Mr. BISHOP. Well, I'd ask you to put in quotation marks and italics the words "more efficient production." If you compare Chinese production and Mexican production with American production, they don't have to comply with OSHA. That doesn't make them more efficient.

Mr. HARMAN. Well, that's true, and I think we'd have to make those kind of judgments in coming up with what the Federal role would be in that kind of situation. I think we're headed there. What I'm saying is I think we're headed there.

Mr. BISHOP. Nor do they have to comply with the environmental restrictions that our farmers have to comply with. They're not subject to the same limitations on the chemicals that can be used.

Mr. HARMAN. That's correct.

Mr. BISHOP. All of that goes into the price of production for American peanut farmers, but which produces a safe and a high-quality product, unlike the Chinese peanuts that have resulted in

fecal reserves being found in some of the imports that we've gotten and some of the toxins that have been found in it. The American public wants quality products, and if it has to pay a couple cents more for that quality product to go with our high standard of living, so be it. I think the public wants it, but they want safe and quality products.

Mr. HARMAN. I'm not disagreeing with anything you've said, and I would agree we need to deal with those issues as we move to this kind of a system.

Mr. ROSE. Thank you very much.

We're very happy to have with us today Congressman Terry Everett, who represents a very important peanut-growing district in Alabama. He's not a member of the committee, but we welcome him here today to ask any questions he'd like to ask.

Mr. EVERETT. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear with this subcommittee, and I've been very impressed with the questions that have been asked.

I would say to you that one reason that Mr. Bishop is dwelling on some of the things that he's dwelling on—our districts touch each other, and we're pretty familiar with it—is that the economic impact in those communities would be very, very great. Having said that—and I see that you're in agreement with that——

Mr. ROSE. Well, now, wait a minute. One of you are in agreement? [Laughter.]

Mr. HARMAN. Yes.

Mr. ROSE. OK.

Mr. EVERETT. Having said that, and having seen or agreed that the perception that this report has created in the press and with the American people in general, let me ask you, would you issue this report the same way today that you issued it when you issued it?

Mr. HARMAN. I think basically yes. We may take a look at how some of the things were characterized in the report——

Mr. EVERETT. In other words, you would allow those misconceptions to go forward as they have?

Mr. HARMAN. Well, unfortunately, when we issue a report—if we issued a report and said that the cost to the consumer of this program is $300 million to $500 million, and that's all we said, it would still get picked up by the press, and it would be characterized as "GAO says this program costs too much."

Mr. EVERETT. How can you make the assumption it would still be picked up in the press? I have 30 years of newspaper experience. How can you make the assumption it would still——

Mr. HARMAN. Because I've seen it too many times.

Mr. EVERETT. In your experience. OK.

Mr. HARMAN. In fact, the way we characterized that "finding" in this report, we said, "Here's how we came up with it. Here's what we define as consumer," but it still got characterized in a certain way. And to some extent, that's the nature of the media. They don't have the space to explain everything. That's why I say we may have looked at some of the language that we used to make sure that, particularly in the one that Congressman Stenholm pointed out and I believe someone else pointed out on that one title, that

they could be viewed as we're saying they're getting too much money, and that wasn't our intent.

Mr. EVERETT. I love Washington. You never get a direct answer to anything. My question was, would you issue that report the same way——

Mr. HARMAN. Exactly the same?

Mr. EVERETT. Exactly the same way.

Mr. HARMAN. There would be some what I would call minor changes, but basically it would be the same report.

Mr. EVERETT. I think I just got the same answer, but let's go beyond that.

Mr. Chairman, I don't want to say an awful lot except for the fact that there's been great damage caused by that report and by some of the misconceptions that that report has caused in the way it was stated, and we're not talking about some real rich peanut farmers. We're talking about the economic impact for people who work on a week-to-week basis. They get their paychecks on a week-to-week basis.

I find it sort of interesting that while our administration is talking about spending billions of dollars on R&D to create jobs and stimulate new jobs and that sort of stuff, that we would have folks who would attack a program that has been successful over the years, creates jobs, and keeps the economy moving in rural areas where we very much need to move the economy.

Thank you, Mr. Chairman.

Mr. ROSE. Thank you, Mr. Everett.

Gentlemen, thank you all very much. You've done a good job this morning. We'll give you an A+ for your candor and your stamina. Thank you all.

Mr. HARMAN. Thank you, Mr. Chairman. I hope we can do the same thing when the sugar report comes out.

Mr. ROSE. Well, we'll look forward to a repeat. [Laughter.]

So be careful how you write that one.

Mr. HARMAN. Yes, sir, Mr. Chairman.

Mr. ROSE. Our next panel is Mr. Dallas Smith, Director of the Tobacco and Peanuts Division of ASCS, and he's accompanied by Mr. Terrence Jackson, Office of General Counsel, and Mr. Ronald Holling, Tobacco and Peanut Analysis Division of USDA.

Mrs. Clayton, Mr. Smith hails from North Carolina, probably in your district. I think his mother and daddy vote in your district, Mrs. Clayton.

We're very glad to have Dallas back. Administrations come and administrations go, but Dallas moves on. [Laughter.]

Mr. ROSE. And we're proud of him.

The floor is yours, sir.

STATEMENT OF DALLAS R. SMITH, DIRECTOR, TOBACCO AND PEANUTS DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY TERRENCE G. JACKSON, OFFICE OF GENERAL COUNSEL; AND RONALD W. HOLLING, TOBACCO AND PEANUT ANALYSIS DIVISION; AND LEON MEARS, DIRECTOR, OILSEEDS AND PRODUCTS DIVISION, FOREIGN AGRICULTURAL SERVICE

Mr. SMITH. Thank you, Mr. Chairman, members of the subcommittee. I'm the Director of the Tobacco and Peanuts Division of the Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. I appreciate this opportunity to meet with you and to discuss the general administration of the peanut program as it relates to losses to the Commodity Credit Corporation on the 1991 crop of peanuts and changes that have been made to avoid such losses in the future.

I have one additional person accompanying me today. He is Mr. Leon Mears, Director of the Oilseeds and Products Division of the Foreign Agricultural Service.

The national poundage quota concept was enacted as part of the two-tier price support program in 1978 to bring into balance the size of the quota eligible for quota price support with the domestic demand for peanuts. Under subsequent legislation, the quota was reduced from 1,680,000 tons for the 1978 crop to 1,100,000 tons for the 1985 crop.

The Food Security Act of 1985 modified the legislative formula in the Agricultural Adjustment Act of 1938 for decreasing the quota and tied the quota size to domestic demand. Amendments made by the Food, Agriculture, Conservation, and Trade Act of 1990 to the 1938 act continued the same quota formula, but raised the minimum national quota from 1,100,000 tons to 1,350,000 tons.

Following this formula, the Secretary of Agriculture set the 1991 crop national poundage quota at 1,550,000 tons, which was 10,000 tons less than the 1990 poundage quota, but 110,000 tons larger than the 1989 quota. Planted and harvested acres were the largest since 1951, and yields averaged 2,444 pounds per harvested acre, the largest since 1985.

The second largest amount of quota peanuts ever pledged as collateral for CCC under the price support loans since the poundage quota began in 1978 occurred with respect to the 1991 crop. Correspondingly, a large increase in CCC outlays resulted from the losses realized from the sale of 1991 crop peanuts from that 1991 crop.

The 1991 loan stocks consisted of 535,180 tons of loan peanuts, of which 251,739 tons were quota peanuts. The balance was additional peanuts. Total CCC price support loan outlays were about $245 million.

Of the 283,000 tons of additional loan stocks, approximately 42,400 tons of additional loan peanuts were sold by CCC through the immediate buy-back procedure. Another 46,000 tons of additionals were sold under the redemption sales policy for domestic edible use. The balance of the additional loan inventory of 174,000 tons was sold for export and domestic crushing into oil and meal.

The majority of the losses to CCC occurred on the sale of quota peanuts for crushing. Approximately 212,000 tons of the 251,000 tons in inventory were sold for domestic or export crushing at prices far below the loan acquisition cost. Only minor losses occurred on the sale of Segregation I additional peanuts.

These are the general factors that resulted in the record level of quota crushing losses for the 1991 crop. I'd like to now go into greater detail and discuss the corrective actions that either have been taken or may be taken to get the peanut program back on track.

First, I'd like to discuss the statutory allowance for up to a 10-percent increase in the basic quota due to prior year quota undermarketings. It has been argued in the past that this undermarketing provision tends to be a wash since the annual undermarketings for a crop has averaged about 10 percent of the basic quota. While this fact is true over a multiple-year period, it still presents a potential for price support losses during any specific year.

The impact of this potential loss was realized during 1991. This was a year in which the basic quota was increased by prior year undermarketings to the maximum statutory level of 10 percent. Likewise, it was also a year of high yields and record production. As a result, quota marketings during 1991 were 1,636,000 tons, or about 106 percent of the basic quota.

Next, I would like to discuss the impact of the Department's estimates for domestic food use.

Mr. ROSE. Dallas, let me interrupt you and ask you a question. Was the Department under pressure or were people telling you to set the 1991 quota level at a particular level? Were some people telling you to make it lower or some people telling you to make it higher? Or do you always have those kinds of advice?

Mr. SMITH. Yes, sir, in general we're always getting that type of advice. However, in 1990 and 1991 we did not seek public comment in setting the quota, so any written comments that we got were unsolicited, and according to our records, there were very few comments regarding the quota.

Mr. ROSE. All right. Well, by hindsight, the 1991 quota was too high, right?

Mr. SMITH. Yes, sir.

Mr. ROSE. As you look back over the process that determined the 1991 quota, was there anything that made you establish that level that you would think a second time about if it occurred again?

Mr. SMITH. The environment in which we were setting the quota was December of 1990, and that was at the peak of the disaster from the 1990 drought. We have to set the quota by December 15. In looking at the recovery the year following the drought, where prices had skyrocketed, we had to look at trends from the past. In 1980 we had a similar drought. In 1981 we had a recovery from that drought, and that recovery was very strong, so we had reason to assume that in 1991 we would have a similar recovery. However, it didn't come about. So to a certain extent, perhaps we were overoptimistic of the recovery.

Mr. ROSE. Thank you.

Mr. BISHOP. Mr. Chairman, may I follow up on that?

Mr. ROSE. Yes, quickly. Go ahead.

Mr. BISHOP. What you're saying is ultimately the U.S. Department of Agriculture was responsible for setting those poundage quotas. Is that correct?

Mr. SMITH. That's correct; yes, sir.

Mr. BISHOP. And the farmers themselves, the producers, were not responsible for the decision that was made, were they?

Mr. SMITH. That's correct.

Mr. BISHOP. So any costs that resulted from that really were a result of miscalculations or misestimations by the Department, and not anything wrong that the producers themselves had done.

Mr. SMITH. Well, there were a couple of things, and I think some of them will come out as I proceed with my testimony, and I think we can elaborate on these factors in combination. There were some other items that also impacted the setting of that quota.

Mr. ROSE. Thank you. We're trying to give you an opportunity to put on the record if your arm got unduly twisted. Do you understand?

Mr. SMITH. Yes, sir.

Mr. ROSE. Right now you're taking all of the bullet yourself.

Mr. SMITH. Yes, sir.

Mr. ROSE. If you want to blame it on somebody else, now's your chance. [Laughter.]

Mr. ROSE. Go ahead.

Mr. SMITH. All right, sir.

Over three-fourths of the national quota represents domestic food use in that formula. Considering shrinkage and crushing grade peanuts separated from the edible kernels during milling, the food use requirement probably accounts for over 90 percent of the national quota. Thus, the accuracy of the announced quota is dependent upon the Department's ability to project food use and to convert these projections into farmer stock production. The conversion error in this estimation process introduced the second major source of quota crushing losses under the 1991 crop.

The projected level of domestic food use utilized in establishing the 1991 quota overestimated the 1991 recovery from the 1991 drought-induced downturn in use by approximately 100,000 tons. In retrospect, this optimistic projection of quota demand further contributed to excess supplies. The net result was a record level of price support loan stocks and crushing losses.

Other factors also contributed to 1991 huge inventories and losses. These were, one, an industry tendency to blend smaller kernels, called 14/16 screen sizes, back into edible stocks; two, an increase in tonnage of peanut paste imports; and, three, an International Trade Commission's recommendation to open the U.S. consumer market to imports of shelled and in-shell peanuts during July of 1991.

The blending of smaller kernels back into edible stocks, after the Department had calculated the quota assuming these kernels would be diverted to the oil market, accounted for approximately 2 percent of the domestic food use error.

Also of increasing concern are peanut paste imports. Peanut paste imports are displacing the projected market for quota peanuts. However, the current impact of imports on the quota has

been somewhat mitigated by quota calculations that exclude product demand for peanuts met by imports during the marketing year immediately preceding the year in which we're making the projection. However, this methodology provides no protection against estimation errors resulting from import growth rates that exceed the rate used to project current utilization in the establishment of the quota. The rate is normally 2 to 3 percent.

In the way of a correction, the Department has, one, increased oversight and review of domestic edible use projections; and, two, further refined the quota estimation process by accounting for the blending of smaller kernels back into edible stocks. In addition, CCC has amended its program regulations and policies to enhance the marketing of loan stocks. Under these refinements, the 1993 crop quota was established at 1,496,000 tons, down 44,000 tons from the 1992 crop quota and 54,000 tons from the 1991 crop quota. Also, CCC's export sales policy has been modified to make loan peanuts more competitive in the export edible and export oil markets.

The aforementioned refinements should reduce the potential for current and future quota losses. However, they offer no assurance or protection regarding potential losses associated with undermarketing procedures and from increasing imports.

The 1993 basic quota of 1,496,000 tons will be increased to 1,645,600 tons with the projected application of previously unapplied and newly accrued undermarketings. Thus, the 1993 quota still has substantial potential for program losses, depending of the size and the quality of the crop.

Based on the Department's 1991 crop experience, it appears that legislation may be necessary to alter the potential for losses because of the application of undermarketings. Possible actions could be the reduction of applied undermarketings from the current 10 percent to a maximum of 5 percent. This modification in the undermarketing formula would have prevented most marketings in excess of the basic quota during the 1991 crop season.

An alternative could be to provide the Secretary with the authority to exercise discretion in setting the national poundage quota equal to the maximum level of undermarketings that may be applied in a given year. The 1938 act currently provides the Secretary with discretion in setting the Flue-cured and burley tobacco quotas by adjusting the quotas upward or downward by 3 percent.

Other possibilities include while adding undermarketings to the formula, also limiting the lifespan of any undermarketings to a fixed period, perhaps 1 to 3 years, to encourage their prompt usage. A more extreme move would be to eliminate undermarketings altogether.

The proposed North American Free-Trade Agreement, NAFTA, and the potential for significant modification in the General Agreement on Trade and Tariffs, GATT, as it relates to the current import quota on peanuts present the possibility of an increase in imports of peanuts and peanut products and, thus, the potential for losses to the peanut program if these potential imports are not taken into consideration when setting the domestic poundage quota.

Administrative actions to account for increasing imports were reviewed by the Department prior to establishing the 1993 crop quota level. However, in arriving at the final decision on the 1993 quota, it was determined that no administrative action was necessary due to the current estimation methodology and the lack of impact of recent trade agreements at this time. However, the Department intends to further review administrative action in this regard in establishing the 1994 and 1995 quotas.

Mr. Chairman, this concludes our prepared statement. We will be glad to answer any questions that the subcommittee may have.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. ROSE. So you think we could be in trouble again this year.

Mr. SMITH. There's a possibility. It depends on the make-up of the crop. In 1991, with that net increase due to the undermarketings and the undermarketings not being a wash, that potential still exists, depending on the quality and the size of the crop.

Mr. ROSE. Somebody suggested to me somewhere that maybe there were some farmers who were rejecting the price that they were offered slightly above loan and letting the peanuts go under loan. That doesn't make any sense to me, but has that occurred?

Mr. SMITH. The loan program exists there for those who would like to market their quota peanuts through the loan. However, it's our belief that most farmers market their peanuts directly to commercial concerns and only use the loan program whenever there is a temporary glut on the market or it's necessary because the peanuts are in excess of the demand.

Mr. ROSE. Isn't that something that needs to be corrected?

Mr. SMITH. In the long term in setting the quota, we need to set the quota consistent with the demand so as not to have any surplus come in under loan. If we set the quota too small, we do have a safety feature in the peanut program which allows the additional peanuts to be bought back and satisfy any domestic demand. So we don't have the risk of shortchanging the domestic market, given the current formula.

The 10 percent on the undermarketings and what happened in 1991 was an aberration. We had not had that happen before where we brought in more as undermarketings than we carried out due to natural disaster. As to whether that aberration will occur again and generate a loss, the only way to ensure that it does not is perhaps to limit the amount of the undermarketings.

Mr. ROSE. What is your assessment of the GAO study, and are there any flaws you think should be discussed?

Mr. SMITH. Mr. Chairman, we did not come prepared to discuss their report in detail. However, I would point out that there is a letter from the Department addressing some of the issues that were discussed this morning, from Secretary Madigan at that time, and we did take issue with the lack of objectivity in the report and some of the erroneous assumptions that were made based on data provided by the Department.

I think it's on page 75, the issue on consumer. We addressed that issue directly on page 75 of appendix IV, and we raised some of the same issues that were discussed this morning.

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Mr. ROSE. So as head of the Tobacco and Peanuts Division, do you think it's misleading for the report to say that there's a 51 percent profit in the quota program?

Mr. SMITH. Yes, sir. The reason I would say it's misleading is because of the cost-of-production figures—and these were discussed with GAO in our exit conference—the cost-of-production figures that are used here reflect the cost of production for quota and additional peanuts, not just quota peanuts. The price support on additional peanuts is $130 per ton. Farmers are not going to put in the resources to produce additional peanuts that they would for quota. So the cost-of-production figures, I believe, that were used here reflect the total crop, not just the production of quota peanuts.

Mr. ROSE. Although section 22 of the Trade Act doesn't cover peanut butter, the regulation seems unclear about peanut paste. Technically, couldn't the administration restrict peanut paste imports under section 22?

Mr. SMITH. Mr. Chairman, it's my understanding—and, of course, this is a regulation that's enforced by U.S. Customs and Commerce in terms of the definition under the tariff schedule. It's my understanding that peanut paste would meet the definition that they're using, which is the Food and Drug Administration's definition or standard for peanut butter, which says that it must be at least 90 percent peanuts in order to be classified as peanut butter. Certainly, the paste would meet that standard, since it's supposedly 100 percent peanuts. Now, in terms of whether there is some other definition that would be available to Customs, I'm not certain of what that would be.

Mr. ROSE. Well, it's something that needs to be cleaned up, right?

Mr. SMITH. Yes, sir.

Mr. ROSE. Then you won't have any objections, will you, if we try to clean it up in one of these fast-track bills that are going to be moving through here pretty soon?

Mr. SMITH. Well, Mr. Chairman, I cannot speak for the Secretary with regard to that. [Laughter.]

Mr. ROSE. All right. Well, I'm putting you on notice we're going to try to take care of that.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Smith, how extensively does the Department take current levels and expected increase in peanut butter and paste imports into consideration when setting the national quota?

Mr. SMITH. It is taken into consideration. I'd like to ask Ron Holling, who is an analyst with the Department and responsible for actually setting the quota, to respond to that question.

Mr. HOLLING. We take it into consideration due to the fact that the estimated use is based on data that includes displacement or the impact of peanut paste. We use stocks and processing report data, which measures the stocks of U.S. peanuts as they go out of the pipeline into processing. Whenever a ton of peanut paste comes into the United States, it displaces the market for a ton that would have been made from U.S. peanuts. So as a result, the U.S. peanuts remain in peanut stocks, so it does not indicate that demand had occurred.

By using this number when we project for the next year, it takes into consideration the amount of peanuts that were imported during the period in which the estimate is based. So if, say, 10,000 tons of peanut paste came in during an estimation period, it would include that same 10,000 tons during the period in which we're estimating, increased by the amount of—say we're increasing the estimate by 2 percent. That amount would be increased by 2 percent.

The problem here is, if you look at the amount of imports that are coming in, there's been almost an exponential increase over the past 5 years. So there's an error in our reporting system, but at this point we haven't figured the error is that great to make a difference. We did review it this year, but we retained the option open to review it again next year.

Mr. LEWIS. With the North American Free-Trade Agreement coming down the pike, what inspection guidelines would—let me hold that question a moment. We're talking about the quotas. The industry representatives are concerned about the Canadian product that is being processed using previously exported additional peanuts. What information do you have in the Department concerning the reentry of additional peanuts transshipping back into the United States?

Mr. SMITH. With regard to the reentry of U.S. additional peanuts that have not been processed, we feel that USDA has a very firm program in place to prevent that from happening in cooperation with the U.S. Customs Service. There are some instances where peanuts bypass that system, but we feel on the vast majority of the lots, we're able to monitor that.

However, with regard to products, if United States additional peanuts are exported to Canada and they're made into a product, it is very difficult, if not impossible, for USDA or Customs to currently screen those peanuts out of the market or to assess penalties for that violation.

Mr. LEWIS. Why is that?

Mr. SMITH. Once the peanuts are processed in Canada into peanut butter or candy, it loses its identity as having been a United States peanut or having originated from a United States peanut, whereas if it goes to Canada and it's transshipped back to the United States as a raw peanut, then our import quota would catch those peanuts at the border, and the importer would have to prove that they're United States goods being returned.

In proving that they're United States goods being returned, the importer must produce documentation showing where they were milled and where they were graded by USDA. That documentation would then tell us at USDA that these are additional peanuts subject to a penalty.

So we can regulate the reentry of raw peanuts, but if they are being imported in products, they've lost their identify, and we can't tell whether they're Chinese or Argentine peanuts or whether it's a blend.

Mr. LEWIS. There's no requirement to have what the percent blend would be as it comes back in the current Canadian trade agreement as well as the one we're looking forward to down the pike here?

Mr. SMITH. With regard to NAFTA as it relates to Mexico, there are some requirements in NAFTA that the peanuts that would be entering must be of Mexican origin, whether they be raw, blanched, roasted, or in a product. But with regard to Canada, it's my understanding that there would not be such a requirement on peanut products coming in from Canada. Not as part of the agreement.

Mr. LEWIS. Do you have any idea why one should have preference over the other?

Mr. SMITH. I have Mr. Mears here from the Foreign Agricultural Service, and I would ask Mr. Mears if he would have any specific comments on that.

Mr. MEARS. Under the United States-Canadian Free-Trade Agreement, section 22 commodities were not considered in that agreement, and in Mexico they do have the capability and are producing peanuts at the present time. Canada is not a producer of peanuts.

Mr. LEWIS. No, I know that.

Thank you, Mr. Chairman. I'm not going to pursue that any further.

Mr. ROSE. One quick question, Dallas. On these peanuts that went under loan in the 1991 crop, did any of them get sold or given to the school lunch program for peanut butter in our schools?

Mr. SMITH. No, sir. There were purchases from the 1991 crop for the school lunch program as well as other donation programs, but those were direct purchases from the commercial market. All of the loan peanuts were sold either for edible use or crushing directly into the commercial market.

Mr. ROSE. I thought the school lunch program was set up to be a conduit for surplus commodities held by USDA. It was originally designed for that. What impediment was there to charging these off as a donation to the school lunch program?

Mr. SMITH. We considered that as one of the disposition; however, it would have increased the losses on the peanut program even more had we made a direct donation to school lunch.

Mr. ROSE. Well, you could have sold them to the school lunch program.

Mr. SMITH. In effect, we did get the benefit of the sale, because by CCC buying for the school lunch program in the commercial market, it made room for more sales of loan stocks into the edible market.

Mr. ROSE. Were any of them given away through the AID program?

Mr. SMITH. No, sir, for the same reason of pushing up the costs of the peanut program by making a donation. We would not have gotten the return that we did get on the sale for crushing.

Mr. ROSE. Mr. Baesler.

Mr. BAESLER. I just have one question of my own, and then Charlie Stenholm left me some questions, and I also want to appreciate your courtesy to me earlier, Dallas. I appreciate it very much.

Mr. SMITH. Thank you.

Mr. BAESLER. As I understand it, the potential problem for imports is the same in the peanuts as in tobacco.

Mr. SMITH. Yes, sir. There's one difference in that on peanuts we do have an import quota on raw, roasted, or blanched peanuts coming in, whereas on tobacco we do not have that.

Mr. BAESLER. But you indicated earlier that the potential imports, when you start taking them into consideration for setting the domestic poundage quota, could effectively reduce the domestic poundage quota.

Mr. SMITH. Yes, sir.

Mr. BAESLER. Let me ask the question that Mr. Stenholm left me to ask for him. How can the $80 million loss on the 1991 peanut crop be explained? I think you've done that, but if I understand it, the answer is because we overestimated how much domestic we were going to have; there was more additional raised than you thought there might be, so that added to it, because they get to sell their additional——

Mr. SMITH. That's correct.

Mr. BAESLER. And the third quality is that some of us put in a different type of peanut process than the other. I don't quite understand that one.

Mr. SMITH. Yes, sir. Essentially, that's correct. I would like to address the 1992 crop, which is the one that we're selling now. It's our belief that we will not incur anywhere near the losses that we incurred on the 1991 crop. Looking at our current inventory, our losses could range anywhere between $5 million and $20 million, depending on how we're able to dispose of this crop, but certainly not in the range of the $95 million that we had on the 1991 crop.

Mr. BAESLER. Again from Mr. Stenholm, he's been advised that the Department of Agriculture does not take all of the factors into account when they set quota levels, such as carryover into the new marketing year, carryover into the next marketing year, underharvesting, and importation of peanut butter. We just talked about that one. So could you answer about the first three?

Mr. SMITH. Yes, sir. Another thing we did in 1992 that we didn't do in 1991 was that we sought public comment on setting the quota. We went out with a notice of proposed determination, we received comments from the industry, and we took those comments into consideration in setting the 1992 and 1993 quotas.

Mr. BAESLER. Thank you.

That's all I have, Mr. Chairman.

Mr. ROSE. Mr. Bishop.

Mr. BISHOP. I'll pass, Mr. Chairman. Thank you.

Mr. ROSE. Mrs. Clayton.

Mrs. CLAYTON. Mr. Chairman, Mr. Smith is from my area, and I want to make sure that people acknowledge that he's from the best district. [Laughter.]

Mr. SMITH. Thank you.

Mrs. CLAYTON. I just want to get an understanding. If you felt that the poundage was over by 100,000 tons, why did you make the correction only at 54,000 tons for 1992?

Mr. SMITH. The adjustment that we made—our hindsight told us that in 1991 we had overestimated the quota by 100,000, but by 1992 the market had recovered sufficiently that a 54,000 ton adjustment would now be enough to bring it back in balance. Based

on the loan inventory that we got on the 1992 crop and our sales to date, we believe we do have the quota back in balance for 1992.

Mrs. CLAYTON. Is there any way we can monitor, other than at the end of the year, the utilization of the CCC by farmers, if that's used? I think your comment earlier was that farmers only use that when they feel there is a glut in the market and have to use it. Is there any indication to you now if that's being used or not being used?

Mr. SMITH. Well, certainly, the loan program is there as a marketing alternative. There's no prohibition against farmers using the loan even though there may be a demand in that community for peanuts and allowing the marketing association to merchandise their peanuts to try to get a better price. That's provided for in the price support program. However, when you're looking at a surplus quota, it's difficult for the association to negotiate collectively a higher price than what the farmer could have gotten himself individually in dealing with the buyers.

So it's my opinion that most times when we have quota peanuts under loan—there are some aberrations in this—it's because there's not a demand at that time when the farmer harvested his crop, keeping in mind that the crop is harvested in a very short time period, and we do increase the supply considerably, which does result in a glut at times.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Mr. ROSE. Thank you.

But if a farmer did want to let his peanuts go under loan and let the marketing association get a higher price, he had a pretty rude awakening, didn't he?

Mr. SMITH. Yes, sir.

Mr. ROSE. Because with the losses that occurred in one region, the profits from his region all went south, didn't they?

Mr. SMITH. That's right. That's for both quota and additional peanuts.

Mr. ROSE. All right.

Mrs. Thurman.

Mrs. THURMAN. Pass.

Mr. ROSE. Mr. Everett.

Mr. EVERETT. Pass.

Mr. ROSE. Well, we appreciate your being here. Some of us have felt that in previous administrations they might not have looked very friendly on the peanut program or other commodity programs and maybe listened too much to the manufacturers and let our programs get in trouble to entice Congress to do away with them. I don't think we still have a clear voice from this administration whether its position is going to be any different, but I hope we do, and we look forward to working with you in the future to work out this problem.

Mrs. CLAYTON. Mr. Chairman.

Mr. ROSE. Mrs. Clayton.

Mrs. CLAYTON. May I just inquire, are you looking at this world market orientation consideration as you monitor the peanut program? Is that a consideration you take as well, or is it only the GAO that's doing that?

Mr. SMITH. In the response to the GAO report, Secretary Madigan at that time did reference his position on the peanut program where we recommended several changes. In terms of what Secretary Espy's position will be for the new farm bill, I'm not in a position to discuss it at this point. But the current program does run through the 1995 crop.

Mrs. CLAYTON. Thank you.

Mr. ROSE. Thank you all very much, and we'll excuse you at this time.

Our next panel is Mr. James Earl Mobley, the chairman of the Peanut Growers Group and president of Alabama Peanut Producers Association, Dothan, Alabama, accompanied by Mr. Randy Griggs, chairman of the Alabama Peanut Producers, Dothan, Alabama; Mr. Norfleet Sugg, North Carolina Peanut Growers Association, Rocky Mount, North Carolina; Mr. Ross Wilson, manager of the Southwestern Peanut Growers Association, Gorman, Texas; and Mr. Dell Cotton of the Peanut Growers Cooperative Marketing Association, Franklin, Virginia.

I'm going to allow Mr. James Earl Mobley to be more formally introduced by Congressman Terry Everett.

Mr. EVERETT. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate being allowed to visit this subcommittee. To the people of the Second District of Alabama, the Subcommittee on Specialty Crops and Natural Resources is the most important subcommittee in the Congress.

I'm here today to introduce you to someone who really needs no introduction to this subcommittee and whose unselfish dedication to the agricultural community is well-known: Mr. James Earl Mobley of Shorterville in Henry County, Alabama.

James Earl is chairman of the National Peanut Growers Group and president of the Alabama Peanut Producers Association. In addition to his interest in his crop, peanuts, James Earl has been one of the few selfless individuals who has set aside his personal interest and stepped beyond his fences of his farm to help all farmers. Having known James Earl for almost 30 years, I'm proud to call him a friend.

Mr. Chairman, before I turn the microphone over to Mr. Mobley and the other peanut industry spokesmen, I would like to add my voice to theirs in strong support of the current peanut program.

As a Congressman from the second largest peanut-producing district in the country, I think it's a shame to listen to those who would condemn the peanut program, a program which works well, serving both the taxpayer and the consumer for many years. I'm referring, of course, to the recent GAO report questioning the validity and the cost of the peanut program.

As I mentioned earlier, it is rather ironic to me that at a time when President Clinton is calling for billions in new R&D and in investment to stimulate job growth, some are attacking a program which is productive, costs very little, creates jobs, and benefits the economy.

Contrary to GAO's assertions that consumers are paying too much for domestic peanut butter, it's been established that Americans pay about the same amount as consumers in other countries, about $2.04 per pound. For this reasonable price, they're afforded

the best-quality product on the market anywhere. American mothers know this and, according to an industry study, would be willing to pay a full dollar more per year to support the superior quality of American peanut products.

In December, before the GAO report was released, Secretary of Agriculture Ed Madigan was highly critical of the study, as has been noted here, noting that it lacks objectivity and erroneous assumptions were made and conclusions were drawn that were not supported by the evidence.

Mr. Chairman, I ask this committee to listen carefully to what Mr. Mobley has to say concerning the GAO study. It is crucial that all the facts be known before any conclusions are reached.

I would like to volunteer my services to this subcommittee for any assistance that I may be able to provide, and I commend you, Mr. Chairman, for your service to this committee and peanut farmers over the years.

Thank you, sir.

Mr. ROSE. Thank you, Mr. Everett.

When James Earl speaks, Congress listens. [Laughter.]

We're glad to have him.

Mr. Bishop has been called to the White House, and that's why he had to leave, but he is firmly working with us on all our problems, and I'm glad to see it.

James Earl and your panel, we're glad to have all of you here from my district and from Virginia and from Alabama. Thank you all for coming, and would you give us your testimony.

STATEMENT OF JAMES EARL MOBLEY, CHAIRMAN, NATIONAL PEANUT GROWERS GROUP, AND PRESIDENT, ALABAMA PEANUT PRODUCERS ASSOCIATION, ACCOMPANIED BY RANDY GRIGGS, CHAIRMAN, ALABAMA PEANUT PRODUCERS ASSOCIATION; NORFLEET SUGG, NORTH CAROLINA PEANUT GROWERS ASSOCIATION; ROSS WILSON, MANAGER, SOUTHWESTERN PEANUT GROWERS ASSOCIATION; AND DELL COTTON, PEANUT GROWERS COOPERATIVE MARKETING ASSOCIATION

Mr. MOBLEY. Mr. Chairman, Mr. Everett, members of the subcommittee, I would like to thank Congressman Everett for attending this hearing today. I'm proud to present this testimony as the chairman of the National Peanut Growers Group. Sometimes I feel that my 13 years of tenure as chairman of this group may make my words seem repetitive. If they are, I think that's because through the work of this subcommittee, the modern peanut program represents a finely tuned supply management program which serves the needs of the peanut producers, the industry, and the consumers of this Nation.

Mr. Chairman, thank you for calling this hearing. To our old friends, it's a pleasure to meet with you again. To the new members, I would like to pledge to you that the National Peanut Growers Group, which is comprised of major producer organizations in Virginia, North Carolina, South Carolina, Florida, Georgia, Alabama, Oklahoma, Texas, New Mexico, and the three regional marketing associations, will speak with one voice to advance the interest of the peanut producers. I would also take this opportunity to

volunteer the Growers Group to assist you in any issue where peanuts are involved.

This also represents a new beginning. We have a new President, a new administration, a Congress composed of 25 percent new Members, and a new subcommittee. I hope that this new beginning will see a more objective view of the success of the peanut program as it currently exists. This is the beginning of the record that will ultimately result in the 1995 farm bill. Today the subcommittee will hear some of the concerns expressed by the growers and other industry members. This will become part of an ongoing dialog of our future.

As to the primary reason of this hearing, the Growers Group isolated three major factors as contributing to recent program costs. The first major factor is the level at which the Secretary sets the national poundage quota. From 1986 to 1989 the national quota increased 6.2 percent over 3 years. For the 1990 crop year, however, the Department chose to increase the national quota 8.3 percent. There was no justification for this amount of increase. The short crop experienced in the Southeast in 1990 saved the CCC from a sizable loss. Premature talks of a short crop in 1990 unfortunately triggered increased product prices that resulted in decreased sales of peanut products. On top of this, peanut butter was temporarily pulled from the school lunch program.

Even when considering such factors, the USDA seemed reluctant to take the necessary action to bring the national quota level back in line with demand. Had the quota not been raised so dramatically in 1990 or had an adjustment been made from 1990 to 1991 to reflect the consumption decrease, much, if not all, of this loss could have been prevented. It appears that the national quota level for 1993 of 1,496,000 tons is finally somewhat back in line.

Just as a commentary, Mr. Chairman, on what Mr. Smith said he was worried about this year, the National Peanut Growers Group was about 40,000 to 45,000 tons less in recommending its quota be this year so we could get back in line with the consumption.

Mr. ROSE. Can I stop you there and ask you, did the Department have the authority?

Mr. MOBLEY. They did.

Mr. ROSE. They could have come down that 45,000 more?

Mr. MOBLEY. Yes, they did.

Mr. ROSE. Do you have any reason as to why they didn't?

Mr. MOBLEY. Yes, I have my reasons, but I'd rather not air them at this time.

Mr. ROSE. All right.

Mr. MOBLEY. Some segments, particularly manufacturers, have often expressed their concern over the price support level as the primary cause of reduced demand and, as such, a major factor in program costs. Mr. Chairman, I suggest that the primary determinant in demand is the price to the consumer, not the grower. As you have pointed out in the past, in most cases the price to the consumer would not be affected if producers donated the peanuts. It's illogical to assume that reduced input costs translates into reduced consumer prices rather than increased profits.

The second contributing factor to the 1991 quota loss was the temporary lifting of section 22 in 1991 to allow foreign peanuts into the United States only 30 days before the beginning of the all-time record high U.S. peanut crop. There is no need to dwell on this matter now, as we know that you and members of your subcommittee agree with us in feeling that this action was unnecessary and that the imports would displace 1991 domestic crop production, which is in fact what happened.

The third contributing factor to our program losses is a dramatically increasing level of peanut butter and paste imports into the United States. As you are aware, section 22 covers peanuts and peanut products, but not peanut butter. From the marketing year 1989–1990 to the 1991–1992 marketing year, a period of only 2 years, peanut butter and paste imports rose 234 percent. Already during the first 5 months of the current marketing year, the level of imports is 87 percent above last year's level. Projections are that we could easily have the equivalent of over 50,000 farmer stock tons this year.

What disturbs us even more is the origin of this product. As you know, the United States and Canada signed a free-trade agreement in 1988 which took effect in January of 1989. Since this agreement took place, imports from Canada qualifying for preferential duties have increased 711 percent. It's appalling to us that these imports which are disrupting our supply managed program are coming from a country which was allowed to exempt its own supply managed commodities from the current trade negotiations.

Each pound of peanut butter/paste import displaces 1.89 pounds of domestic production of farmer stock bases, causing domestic production to be placed in the loan and be crushed at a loss. Until a solution can be found to this problem, we feel that USDA needs to begin taking not only current levels of imports, but also expected increases into consideration when setting the national quota. As for solutions, the National Peanut Growers Group has appealed to the Secretary to bring peanut butter and paste under section 22. We hope the subcommittee will support us on this endeavor.

We also bring to you our concerns about the matter as it relates to the pending NAFTA agreement. We have appealed to have the above-mentioned reentry prohibition become a permanent part of the agreement. We have also requested that inspection guidelines be put in place to require that products from Mexico adhere to the same quality parameters as our domestic production. The National Peanut Growers Group has consistently opposed the basic premise of the NAFTA and the proposals advanced by the former administration in GATT. Suffice it to say, we respectfully request that you continue your efforts to assure that any trade agreement is a fair agreement, not a free agreement.

We also seek the help of the subcommittee in securing what we believe to be two vitally important provisions in the NAFTA enabling legislation. First, we feel we must have language prohibiting reentry of peanuts and peanut products. Second, we believe there must be a provision that requires inspection of all imported peanuts and peanut products to determine that the farmer stock or shelled peanuts meet U.S. grade and quality standards and to de-

termine that the peanuts used in imported products meet the same standards.

Mr. Chairman, I cannot understand why so many Members of Congress, the administration, and the people of this Nation have so little understanding or appreciation of the contribution that agriculture makes to the economy and security of this great Nation. Outside of agriculture, there is little or no understanding of the purpose and function of farm programs. The recently released so-called study conducted by the General Accounting Office which reviews the peanut program is a graphic illustration of this lack of understanding and, I might add, a witch hunt and a complete waste of taxpayer money.

Mr. Chairman, I would like to request that the remainder of my testimony be placed in the record. It contains a detailed and objective analysis of the method of setting the annual quota and the effects of imports on peanut butter and peanut paste in the program. This detailed analysis was done by Mr. Dell Cotton, manager of Virginia-Carolina Peanut Marketing Association, and represents over 2 years of detailed analyses.

I would just like 1 minute of commentary on something that was said about how—I'm a peanut farmer, as my Congressman, Mr. Everett, has said, and if it's so good to be a peanut farmer and so enriching, why are we losing about 6 percent of the peanut farmers annually? These things I can't understand.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mobley appears at the conclusion of the hearing.]

Mr. ROSE. Thank you, sir. Without objection, your prepared statement will appear in the record.

I have in my testimony a spreadsheet called "U.S. Peanut Butter Imports." Is that what you're talking about?

Mr. MOBLEY. Yes, sir.

Mr. ROSE. Mr. Cotton, why don't you give us a few comments on what this demonstrates.

Mr. COTTON. Well, basically, what this shows is, beginning with August 1982 through July 1983, which is our marketing year—it goes from August to July—it shows the increase in imports from peanut butter and/or paste from each of the countries.

Mr. ROSE. What's "non-CFT"?

Mr. COTTON. Free-trade agreement. CFT stands for free-trade agreement. So you will see beside Canada as the free-trade agreement kicked in, the duty of the peanuts coming across the border from Canada has decreased, while it has stayed the same for all the other origin peanuts, such as Argentina. So Canada not only has the benefit of being close to us, but the duty of the peanut butter coming into this country from Canada has decreased by 10 percent each January the 1st.

Mr. ROSE. Well, show me where that is on the chart, because it looks like the tariff went up.

Mr. COTTON. All right. If you look under Canada where it says the word "Tariff," August 1988 to 1989 is 3 cents——

Mr. ROSE. I'm sorry. I see.

Mr. COTTON. In each year you'll see they're split by January 1. For instance, August 1992 to December 1992, it showed .039/.032, and that will continue to decrease.

Mr. ROSE. And do they produce any peanuts in Canada?

Mr. COTTON. Very few that I'm aware of. I'm not aware of any.

Mr. ROSE. So your suspicion, then, is that what peanut products or peanut butter come from Canada were additional peanuts that we grew that got shipped to Canada——

Mr. COTTON. Not really. I suspect some of that may be the case, but probably the majority of these are Argentine or Chinese peanuts sent into Canada, made into peanut butter, and coming into the United States. In order to qualify for the lower duty, it's my understanding that the peanuts have to come into the country of Canada, be processed into a different product, and then they can qualify for the lower duty.

Mr. ROSE. Now, I understand that in NAFTA any peanuts that might come from Mexico would have to be actually produced in Mexico. Is that right?

Mr. COTTON. That's my understanding.

Mr. ROSE. OK.

Mr. COTTON. If you can prove it.

Mr. ROSE. Well, we're going to have a genetic flag, I think, put on American peanuts. [Laughter.]

I don't know how we're going to do it, but that's a very interesting chart, and it shows that Argentina and China have a lot of peanut butter products coming this way.

Mr. COTTON. Canada currently is the biggest problem.

Mr. ROSE. OK.

Any questions, Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

I'd just like to ask, Mr. Mobley, what response did you get, if any, when you asked to have Mexico adhere to the same production parameters as we do domestically?

Mr. MOBLEY. What was the question, sir?

Mr. LEWIS. Did you not request the Department to have Mexico under NAFTA in the negotiations meet the same domestic production parameters as you have to meet?

Mr. MOBLEY. Since we requested this, we have not received a response from the Department.

Mr. LEWIS. I see. What was your opinion of the GAO report overall?

Mr. MOBLEY. I thought I pretty well expressed it. It seems to me that it's more or less a witch hunt. When they state we're making 51 percent and they don't include the land or the machinery or labor, we're just not a level playing field, and it just looks like, to me, it's meaningless.

Mr. LEWIS. Would you say there—well, maybe you wouldn't, but it certainly appears to me that the report gives a fine point or theme to the fact that American consumers would benefit by lower-priced Communist Chinese or Argentine peanuts.

Mr. MOBLEY. As Chairman Rose has pointed out, I believe if the American people gave the manufacturers the peanuts, it would not basically affect the peanut butter price.

Mr. LEWIS. I just had to get that lick in, Mr. Chairman. [Laughter.]

Mr. ROSE. Thank you, sir. Would the gentleman yield a minute?

Mr. LEWIS. Yes, sir.

Mr. ROSE. Mr. Lewis is from Florida and is vitally interested in all these commodities, but especially sugar. Wouldn't you say that sugar and peanuts are the two hot items so far as candy manufacturers are concerned? Is there anything that comes close to peanuts and sugar prices?

Mr. MOBLEY. I wouldn't think so.

Mr. ROSE. Thank you.

Mr. LEWIS. Mr. Mobley, in the recommendations from the GAO report, there were four of them to Congress: Reduce the annual quota support price over time; reexamine the method of assigning quotas; allow quota support prices to decrease and increase each year as production costs fluctuate; and permit Government agencies to purchase peanuts at the world market price rather than at the higher quota support price. Are there more effective ways USDA could set a national poundage quota, and what is your opinion of the overall recommendations?

Mr. MOBLEY. In my opinion, we, as the National Growers Group, requested that it be set at 1,450,000, and if they had listened to the producers' end of it as we look at the big picture rather than looking at somebody who wants to bust the program, then I believe that we could keep the costs down on the program. I don't think there would be any doubt about it.

Mr. LEWIS. Thank you. Going back one more time on the reentry provisions of Mexico in NAFTA, with the peanut butter and the paste problem, I would think—and it was answered when I asked the question of USDA that, of course, peanuts come under section 22, but the paste and peanut butter doesn't. I do think they should, and I think we have the same problem as the chairman alluded to with sugar, because we have tremendous blending, and we have thousands of tons of sugar coming into the country that way which evade the quota, and you have the same problem. So this member of the subcommittee will support your request.

Mr. MOBLEY. Two things, Mr. Lewis. If you consider the carryover in setting the quota and consider, as you have said, this putting paste and peanut butter under section 22, we would solve our problems, in my opinion.

Mr. LEWIS. Thank you, Mr. Mobley.

Thank you, Mr. Chairman.

Mr. ROSE. Mr. Baesler, any questions?

Mr. BAESLER. No, Mr. Chairman.

Mr. ROSE. Mrs. Thurman.

Mrs. THURMAN. Just going back to the GAO report, what other kinds of things would you have liked to have seen in that report that would have made a different outcome?

Mr. MOBLEY. Facts.

Mrs. THURMAN. Pardon?

Mr. MOBLEY. Facts. [Laughter.]

Mrs. THURMAN. I guess that's plain enough.

Mr. ROSE. Mr. Everett.

Mr. EVERETT. Thank you, Mr. Chairman.

When the Bush administration lowered the import barriers, were there not peanuts not fit for human consumption and of low quality imported into this country?

Mr. MOBLEY. Yes, the report that we had, Congressman Everett, was that they shipped mostly what growers call—they try to grow good peanuts, as you know, in Alabama, Georgia, North Carolina, Virginia, Texas, and Oklahoma, and this is garbage that they were shipping in here. I wouldn't want to repeat in a hearing like this some of the things that they found in these peanuts that were coming in, and we don't believe that the American public wants to eat that type of stuff.

Mr. EVERETT. Isn't it a fact that some of the peanuts—didn't they find their way to the market shelf in a variety of different products?

Mr. MOBLEY. Yes, unfortunately, they did, Congressman Everett.

Mr. EVERETT. Thank you, Mr. Chairman.

Mr. ROSE. Anything else?

Mr. EVERETT. Thank you, Mr. Chairman. No.

Mr. ROSE. Gentlemen, we appreciate your presence with your distinguished panel, and Mr. Cotton wants to say something.

Mr. COTTON. Can I make one more point, please? It won't take but a second.

Mr. ROSE. Yes, sir.

Mr. COTTON. I'm not going to get into a detailed analysis of the GAO report, but I did want to mention one thing in the report. As you're well aware, peanut producers are very proud of the fact that from 1986 to 1990 there were no losses on the peanut program for edible quality peanuts. There were only losses on disaster transfer pools. This took a great sacrifice on behalf of peanut producers to be able to do this, because they've given up quite a few of their additional pool dividends in order to accomplish this.

Mr. Harman, in his statement, said that GAO did not take into consideration the 1991 crop losses because they did not want to skew the figures, but it does say in this GAO report that USDA incurred from 1986 to 1990 average annual costs of $34 million, which included net losses from the loan program averaging $14.5 million. That $14.5 million average over the 5 years is $54 million, which was the losses from the 1985 crop year, which was the 1986 fiscal year. That was before we put in a national cross-compliance to eliminate those losses.

So I just wanted to—since that's something that has cost producers a lot of money, it accomplished what it was supposed to do, yet they brought this into the report.

Mr. ROSE. I think that's a very valid point, and I'm not sure everybody understands that the peanut grower groups in this country—the Carolinas, Virginia, the Southeast, the Southwest—if one area loses money, the other areas send their profits to cover those losses.

Mr. SUGG. Mr. Chairman, I'm from your State, and we're very, very honored to have you in the position you are and also to have Congresswoman Clayton by your side. I want to let you know that the peanut growers in Virginia and North Carolina are very disturbed in sending these profits to the other two areas. On the other hand, they're more committed to work with all the peanut growers

in the United States to make the peanut program work. We have tried to make it work, and it's just unfortunate that the GAO report does not indicate some of the sacrifices that growers themselves are making to make the peanut program work.

Mr. ROSE. I think you're right.

Mr. Cotton, not now, but sometime in the future, could you all take this peanut butter import chart and examine whether—can you tell from Customs records how much the price was per pound for these imports?

Mr. COTTON. Yes. About all I can see is the port of entry, the country of origin, the Customs value, which is the price, and the duty. But, yes, I've got the value.

Mr. ROSE. Whatever that cost is——

Mr. COTTON. I'd say most of it usually is 55 to 57 cents, something like that.

Mr. ROSE. A pound?

Mr. COTTON. A pound.

Mr. ROSE. With this coming into the marketplace, what has the effect been on the retail price of peanut butter in our stores? If you could take a look maybe and see. According to GAO, it would have gone down drastically, you understand.

Mr. COTTON. I kind of differ with that, but, yes.

Mr. ROSE. I'd like to see your computation on that, because I'd like to show it to my colleagues.

Mr. COTTON. OK.

Mr. ROSE. Gentlemen, thank you all very much. We appreciate what you do, and we're going to try to fix some of these things, some of them sooner than later.

Mr. MOBLEY. Thank you, Mr. Chairman.

Mr. ROSE. Our next panel is Mr. W.J. Spain, Jr., chairman, legislative committee, Virginia-Carolina Peanut Association, Suffolk, Virginia; Mr. Jeff Crawford, president of the Florida Peanut Producers Association, from Graceville, Florida; and Mr. Darvin Eason, Export Peanut Producers Association, Lenox, Georgia.

Mrs. Clayton asked me to tell you that she, too, has been called to the White House. It's been a long time since us Democrats have been to the White House, so we usually go every invite we get now, Mr. Lewis, you understand. [Laughter.]

Mr. Spain.

STATEMENT OF W.J. SPAIN, JR., CHAIRMAN, LEGISLATIVE COMMITTEE, VIRGINIA-CAROLINA PEANUT ASSOCIATION

Mr. SPAIN. Mr. Chairman, I want to thank you for inviting us. I noted in the testimony from the GAO they left out the peanut shellers. They mentioned the fact that peanuts were sold by the farmer to Hershey Chocolate and directly to the consumer, but since the turn of the century, our company has been engaged as the first handler from the farmer, and we're commonly known as a peanut sheller.

I'm the chairman of the legislative committee of the V–C Peanut Association. I've already said we appreciate you asking us. Our members consist of peanut shellers in the States of Virginia and North Carolina. Our members buy all of their supplies from pea-

nuts produced in these areas by farmers. Our members sell both shelled and inshell peanuts to the trade.

The Government's price support program, as we've heard, suffered a severe financial loss in 1991. This loss was due to increased planting in the other production areas, a large carryover of undermarketings, and above average yields. When this total of peanuts was added to the quota allocation, there was simply too much quota tonnage for an industry struggling to get back to the 1990 usage.

The CCC disposal of 1992 crop farmers stock will likely result in a much smaller loss, and we might add, as Dell has mentioned, that the Virginia-Carolina loan pools had significant profits for both of these crop years, and these profits were sent to offset a portion of the losses of the other two areas.

We were beginning a healthy recovery of the loss of our markets due to this 1990 disaster, but now we are confronted with a serious new problem. Imports of peanut butter or peanut paste are increasing at an alarming rate. Imports of peanut butter were insignificant until the 1990–1991 year, when they increased almost 2½ times. We're now projecting the volume to more than double, from 20 million pounds in 1992 to 40 million pounds in 1993, and we're not sure that there's a full accounting at this time.

Now, we failed to include with the mailings some charts, and from this you can see the tremendous increase that's taken place in just the last recent months.

The peanut stocks and processing reports—which is the data that we use to measure the use of peanuts and products in the United States—showed a dramatic decline for both December 1992 and January 1993, and, in particular, peanut butter and salted peanuts. It is our opinion that if something is not done quickly, we will experience a dramatic cutback in the usage of U.S. peanuts in our peanut products.

I'd like to draw your attention to another graph that you have. The problem is that world peanut values are much cheaper than U.S.-supported prices for domestic use, and the open-door policy and cheap tariffs are allowing foreign products to displace a larger and larger portion of the established domestic use of U.S. processors.

This graph shows that in 1978, at the outset of the additional contracting for peanuts, for almost 2 years the price of the grade of medium peanuts was identical between the export and the domestic market, and from this graph, going to 1992, you're seeing that the export prices have remained relatively the same, but the price of domestic peanuts has almost doubled. It's that spread between these values that allows, with the lack of any controls, this cheaper-priced product coming into our market and displacing it.

Already a large portion of the industrial peanut butter marketed in bulk to cookie and candy people has been taken over by these imports, and we understand that plans are now being made to enter retail brands of peanut butter. Mr. Chairman, we need help now, before it's too late.

We're not sure what the quickest and surest solution is. We'd like for you to consider the following: In 1953 the Eisenhower proclamation said, "Peanuts, whether shelled, not shelled, blanched,

salted, prepared, or preserved, including roasted peanuts, but not including peanut butter" would have a limit of 1,709,000 pounds. Peanut paste is being identified as the major problem. I think you raised the question, is peanut paste covered by this 1,709,000, or is it in fact peanut butter?

We recommend that (A), President Clinton issue a new proclamation removing "but not including peanut butter" from that proclamation; or (B), if that is not possible, then at the very least the President should cap the level of peanut butter or peanut paste imports to the current level for the duration of the present peanut program; or (C), increase the tariffs on peanut butter or peanut paste.

Either A, B, or C above can be done as an emergency proclamation under a paragraph of section 22(b), which says, "In any case where the Secretary of Agriculture determines and reports to the President with regard to any article or articles that a condition exists requiring emergency treatment, the President may take immediate action under this section without awaiting the recommendations of the Tariff Commission."

Peanut paste is simply ground peanuts and may be subject to the import limitation.

Mr. Chairman, as Mr. Smith and others have said, Congress has authorized the peanut program with the remaining 1993, 1994, and 1995 crops to be covered. The quota tonnage for the 1993 crop, as Mr. Smith has said, has been set at 1,496,000, and if he didn't say it, you should understand that they are presently preparing these quota allocations, and they include a full 10 percent undermarketing. So you could add 10 percent to this 1,496,000.

The cost for the 1993 crop could now be quite large. In our opinion, every pound of imports will contribute to the cost. For the 1994 and 1995 crops, there is a minimum quota of 1,350,000 tons. If current trends are not changed, even the minimum tonnage required by law may result in a Government cost. The authority to deal with any major interference is clearly defined, and I hope you will help us set it in motion.

The U.S. peanut program has assured the American consumer the highest quality peanuts grown and the purest peanut products in the world. If we open up our markets to unregulated foreign origins, we will do a disservice to our country. If the alternative is to reduce the quota allocation for domestic use, all segments of our industry will suffer. This problem could be handled administratively. Administrative action would probably be much quicker and save the Government a considerable amount of money immediately.

The foregoing would solve the immediate problem very rapidly. The long-term solutions of the peanut program costs and program improvements will no doubt be dealt with by the Congress when the peanut program expires with the 1995 crop.

I personally have been involved—I'm completing my forty-first year, and I came into this industry working on peanut legislation. Now, James Earl may look older than I am, but I'm not sure that he's got that much more service. We've worked with you over a long period of time, and we want to pledge our assistance in dealing with the problems of our industry.

Thank you.

[The prepared statement of Mr. Spain appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much. That might have something to do with how people age in Virginia versus Alabama. I don't know. We won't get into that. [Laughter.]

I think you've made some excellent suggestions here in your testimony, and I think we have what we call a window of opportunity right now. I know you all don't want a lecture about the tobacco program, but let me just tell you why there's a parallel here.

We met last week with all the cigarette manufacturers, who were telling us, "Please don't let there be a $2 cigarette tax." We met with the White House yesterday and told them that we had told both the cigarette companies and now we were telling the White House that if the tobacco tax is very severe, the cigarette companies—and there's no restriction on importing tobacco. We lost that fight in 1986. But the companies will put mainly foreign tobacco, which they get in Brazil at 30 cents a pound, rather than the average $1.65 a pound for American Flue-cured tobacco—they'll substitute foreign tobacco in the American made cigarette, and before we get real exercised about the tax, we want some guarantees that we can be protected from a flight from domestically grown tobacco.

The companies are working on a proposal. Some of them will agree to something that we can live with. Probably most of them won't be able to live with it. But the White House has agreed to it, and they've said they'll work with us to fashion any kind of a mechanism to protect the domestic tobacco grower.

Now, nobody's talking about a tax on peanuts, and I don't want to suggest that they should, you understand, but most of the people that grow peanuts in most of our areas also grow tobacco, and I'm hopeful that we can get in a little possible help on this problem.

Mr. SPAIN. Well, we've tried to say that we don't know what the quickest and surest way is, but we sure do want to find one.

Mr. ROSE. Mr. Lewis.

Mr. LEWIS. I don't have any questions at this point for Mr. Spain. I do see that he has pointed out our concerns about the peanut paste and what should be done about it, and we'll continue to follow that.

Mr. ROSE. Thank you, sir.

Mrs. Thurman, any questions?

Mrs. THURMAN. No, Mr. Chairman.

Mr. ROSE. Mr. Lewis.

Mr. LEWIS. Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

Mr. Spain, I welcome you here today as a fellow Virginian. I don't have any peanuts over in my part of the State, at least not that I know of, but I certainly am very concerned about your industry, the welfare of it and the impact it has on the economy of the State and the country.

I'd like to ask you a little bit about the competitiveness of the situation here. It's my understanding that these imports can come in here and offer a price that's a lot lower than what domestic producers can offer, and I'm wondering if you have any observations on the cause of that. Is it simply lower wages, or are we also confronted with the problem that your industry is overregulated by so

many different programs of the Federal Government, in terms of having to comply with a lot of things that are intended to protect the environment, make a safe workplace and other things that may go well beyond what are obviously safety things—protecting the environment and maintaining a safe workplace—but cause you a lot of needless expense that reduces your ability to compete?

Mr. SPAIN. Well, again, if you'll look at this graph, the major issue is the price, and when you get a price for the raw ingredient at a 30-cent difference in that price—and you might ask, if you don't know too much about the program—the grower holder, which are the peanuts used for domestic use, have a minimum quota price. So that has continued to increase while the export peanuts have stayed the same. Anyone outside of the United States had the same opportunity to do the same thing they're doing now all during this period, but as these prices have widened, the opportunities have developed where it's so great that, in my mind, that's the compelling reason.

Now, you can get into these things about the environment, and God knows we've got plenty of concerns about that, and the wages and these other issues, but in this particular case, in my opinion, it's strictly a price consideration.

Mr. GOODLATTE. Do you have any feeling that in the long term—obviously, we need to do something different to help you in the short term, but in the long term, the need for you to have a higher price support and your ability to offer the same price that these foreign countries are able to offer can be improved, can be changed? I mean, can you compete with them at some point in time?

Mr. SPAIN. I've been in this thing for 41 years, and we've been through many, many changes in the peanut program starting from when I entered in 1952 until the present time, and each time the program has been considered, they're measurable changes, in my opinion, that improve it. At this particular time, I think the GAO said we need to reexamine it. I think we're all saying the same thing.

If there are factors at the end of this period of time that need to be addressed, then we need to address them. If we're going to continue on this path of free trade, GATT, and NAFTA types of issues, then I think price has to become part of the consideration, and I think that will be addressed by the group of people who I consider the most responsible that you can find in our country.

We're dealing with the problems as we address them, but we've got a short-term problem that's mushrooming, and you've got to be in the industry and trying to sell your peanuts every day to realize what's really happening to you.

So you asked me about Government regulations, and when you've been in it as long as I have, you get used to them. They don't bother you. [Laughter.]

Mr. GOODLATTE. Let me ask, if I might, Mr. Chairman, one more question.

If you had to choose between B and C of the alternatives you presented here, I take it you obviously would prefer alternative A, but if you could not, which do you prefer: increasing tariffs or limiting imports?

Mr. SPAIN. It really doesn't make that much difference if we just cut it off.

Mr. GOODLATTE. We may have to make a decision, though. What would you recommend?

Mr. SPAIN. I would say A. Then B comes next.

Mr. GOODLATTE. All right. Thank you. That answers my question.

Thank you, Mr. Chairman.

Mr. ROSE. Thank you.

We're now going to recognize Mr. Jeff Crawford, the president of the Florida Peanut Producers Association, and then he'll be followed by the statement from the Export Peanut Producer Association, and then we'll have questions of the two of them. We treated Mr. Spain a little differently.

Mr. Crawford, we're glad you're here, and we look forward to your statement, sir.

STATEMENT OF JEFF CRAWFORD, PRESIDENT, FLORIDA PEANUT PRODUCERS ASSOCIATION

Mr. CRAWFORD. Thank you, sir.

Chairman Rose, other honorable Congresspersons, ladies and gentlemen, I'm Jeff Crawford, president of the Florida Peanut Producers Association. I represent 1,500 peanut producers from 25 counties in Florida, which produce more than 100,000 acres of peanuts with an estimated agribusiness value of $250 million. Therefore, it is vital for us in north and northwest Florida to preserve the peanut program.

I understand the agenda today is to determine why there have been losses in the peanut price support program and how this can be corrected. First and foremost, I want to emphasize that the peanut program is not broken and does not need a complete overhaul. However, I know there are certain adjustments that can be made to fine-tune the program so that it will continue to work for farmers, consumers, and taxpayers.

Even with things as predictable as the coming and going of the tide, sometimes a series of events can cause a tidal wave. Similar events have happened in other farm commodities during the crop season of 1992. Low prices, coupled with record yields, caused an increase in agricultural expenditures exceeding $5 billion.

It is not my purpose today to place blame on other growing regions or other segments of our industry. Nor is my purpose to say that these losses were insignificant and unimportant. My purpose is in fact to put into perspective events that may have happened beyond any one group's control and to look for answers that will prevent this from happening in the future.

The series of events began in the summer of 1990. The most severe drought in 40 years cut production in the Southeast by 40 percent. Toward the end of the 1990 harvest season, unusually high prices were paid for less than 5 percent of farmer stock peanuts. This set the stage for much higher prices to the manufacturer and, ultimately, the consumer. Consumption of peanut products, like other food items, is usually driven by price, and at this time the consumption rate had begun to erode.

During the spring of 1991, contracts to growers were higher than normal. Growers, anxious to recoup their losses from the previous year, planted the largest crop since 1952.

It seemed now that the peanut industry was a runaway train. A group of manufacturers urged the Bush administration to lower import barriers, set forth in section 22, and allow imported peanuts into the country. With added pressure from the media during the summer of 1991, the administration agreed to allow importation of peanuts to begin. To the embarrassment of manufacturers, an extremely low-quality peanut, some not fit for human consumption, were imported and only served to further erode consumption and consumer confidence.

Coinciding these events, the 1991 peanut crop was experiencing near perfect growing conditions in almost all regions. Good conditions continued throughout harvest, and the result was the largest peanut crop in history. This, combined with reduced consumption, a national quota poundage that was probably too high, and undermarketing tacked on, totaled over 1.7 million tons of quota peanuts.

The series of events had come full circle to cause our tidal wave. Adding insult to injury, prices offered for—I should make a correction here, sir; this should be peanuts for oil and crushed, instead of oil-stock peanuts—were no higher than additional loan value. By now losses were inevitable. There wasn't anything to do except cut our losses and look for solutions.

In 1992 many groups within our industry had learned a bitter lesson. Contract prices and farmers' acreage were more in line with actual use. Marketing news about the 1992 crop seems to be much more encouraging. According to our GFA representative, we are at least looking to break even, and the worst case scenario is all loan peanuts will be crushed at a $3 million loss.

Already, improvements have been made to prevent the problem from occurring again. USDA, after being urged by the National Peanut Growers Group, has decreased the national quota by 44,000 short tons to 1,496,000 short tons. Efforts are also being made to convince Secretary of Agriculture, Mike Espy, to help reduce the influx of imported peanut butter from Canada, which only serves to undermine our program.

If we, as American peanut growers, are to preserve and maintain a viable peanut program, we must look earnestly at the following areas of concern: One, adjust quota pounds to be more in line with domestic consumption. Carryover should be considered; two, look at the concept of each area association being allowed to build a reserve for future losses; three, have some risk involved with putting quota peanuts in the pool; four, buy-back provisions should be reviewed. Perhaps buy-backs should not be allowed until after all quota peanuts are harvested and marketed out of association pools; and five, consider undermarketing more closely when setting the national quota each year.

These are areas of concern that may be improved upon to strengthen the current program. I pledge to you, the honorable members of this subcommittee, and to other segments of our industry that the growers of Florida are willing to work together to seek

the best possible solution in order to preserve and maintain the national peanut program.

I once heard Dean Kleckner, president of the Farm Bureau, say that leadership was no more than common sense and good judgment. Now is the time for us in the peanut industry to demonstrate leadership.

Thank you, Chairman Rose and honorable members of this subcommittee, for allowing these comments.

[The prepared statement of Mr. Crawford appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much, Mr. Crawford. Excellent statement.

Mrs. THURMAN. Mr. Chairman.

Mr. ROSE. Yes.

Mrs. THURMAN. Mr. Crawford, I want you to know that they have Florida peanuts up here, and contrary to what all the rest of these folks were saying earlier about North Carolina and some of these, we still think these are the best.

Mr. CRAWFORD. Thank you.

Mr. ROSE. Mr. Lewis brought out the Florida peanuts for us, so we'll give credit where credit's due.

Now we'll recognize the Export Peanut Producers Association representative, Mr. Eason.

STATEMENT OF DARVIN EASON, PRODUCER, EXPORT PEANUT PRODUCERS ASSOCIATION, ACCOMPANIED BY VERNON NOLAN AND ROSSIE McMILLAN, MEMBERS, STEERING COMMITTEE

Mr. EASON. Mr. Chairman, we appreciate this opportunity to be invited. My name is Darvin Eason, and I am a peanut producer from Cook County, Georgia. The Export Peanut Producers Association is a newly formed organization, in its infancy, it was formed because we were not being represented by other organizations in the country.

I think we'd be wasting time going over the reasons I think the peanut program lost money the last 2 years, because everybody's said that already. If you'll go to page 3 on the statement, down at the bottom, Mr. Chairman, we believe that there is a fair and permanent solution to our problem which will enable us to retain the vital benefits of the peanut program for producers, while also meeting our obligation to minimize the costs to the American taxpayer.

One, reduce quota in future years to ensure production is more in line with consumption forecasts; two, eliminate the carry-forward of peanut undermarketings which is allowed under current law; three, place an assessment, likely about $35 per ton, on all quota peanuts going into loan to offset the administrative costs required to operate the program, with a rebate allowed should the program operation make a profit; four, restore the USDA school lunch and food distribution programs' usage of peanuts and peanut products to the 1989 levels; and five, reduce import levels of paste and peanut products from foreign countries which do not, or cannot, produce peanuts under the same regime required of U.S. producers in regard to food safety, occupational and environmental safety, and quality.

Due to many factors, but especially Government regulations of labor standards and pesticide restrictions, peanut farmers in this country have production costs far higher than our competitors and do not have a level playing field necessary to ward off unfair foreign competition.

Another area which must be addressed by the industry regards the propriety of establishing a proper support price level for quota peanuts. The Government Accounting Office's report asserts that some 68 percent of all quota peanuts are currently produced by someone other than the person who actually owns the quota. If this figure is correct, then our members would suggest that steps be taken to reduce some of the $200 to $300 per ton rental or lease fees, which artificially add to overall quota loan rate determination under the current formula.

Having said this, however, we must also remind the subcommittee that we are highly skeptical that any reduction in domestic quota peanut prices would lead to any significant reduction in consumer prices at the retail level.

Further, Mr. Chairman, we believe that much of the criticism of the domestic peanut program is not due to an overwhelming concern about its cost to taxpayers, but rather that some in the media and several in Congress continue to exploit the false notion that a small number of farmers in this country are being favored and protected and rewarded unduly by the program. You know absolutely this is not the case, Mr. Chairman, and we call upon you and your colleagues on the subcommittee to aggressively combat these falsehoods, as you have many times in the past.

As export producers, we also believe there are ways to expand our foreign markets for peanuts. This increased trading opportunity would further lessen pressures on the domestic peanut program and would also allow the crop to be grown by more farmers. In this regard, we respectfully suggest the following: One, remove restrictions of sale and lease of peanut quotas across county lines within a State; two, create separate pools for quota and additional peanuts within each area association, and consider a "joint and several" style of responsibility between the area pools to ensure against costs to the Government; and three, allow additional peanuts to be utilized for seed purposes. By allowing the approximately 120,000 tons of seed peanuts required annually to be taken from additionals, we feel there would be no continued temptation for a black market in seeds, producers' input costs could be reduced, and the national quota level could be cut back to reflect the new practice.

In conclusion, we strongly believe the elimination of the peanut program would result in an economic disaster for many areas in the United States, and for those who advocate such an approach, we would remind them that many other sectors of the rural economy would suffer great financial stress if the peanut program were to be ended. Peanut farmers pay taxes, create and maintain job opportunities both on the farm and off, they contribute heavily to the economy of rural towns and counties, and provide one of the healthiest food products in the American diet.

We also realize, Mr. Chairman, that we must be realistic and flexible as farm programs adapt to the new realities of the Federal

budget and the world marketplace. We want to work with you and your colleagues in Congress to ensure fairness and understanding not only to farmers, but to the consumer as well.

Thank you for your time and consideration.

[The prepared statement of Mr. Eason appears at the conclusion of the hearing.]

Mr. ROSE. Thank you, sir, for a very well-reasoned statement.

I want to tell my staff, please make a careful note of the recommendations, of course, in all of these statements, but especially these last three statements. We need to circulate some of their ideas and get some more comments on them.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Crawford, I want to welcome you as the Florida president to be with us today, and I would like to ask you as to one of your suggestions to have some risk involved with putting quota peanuts in the pool. Would you elaborate on what type of risk you are referring to?

Mr. CRAWFORD. It would seem to us, as Florida growers, sir, that if we put the quota peanuts in the pool, we are allowed to receive the full amount of the minimum resale value of the quota support. So it puts us really in a win-win situation, and these are the things in the past that have caused a loss. In the 1991 crop it created such a loss. In our particular area, there were quite a few peanuts that were quota peanuts that were not sold, that had an additional premium to them above the support price, that went into the loan, created a problem, and could have been sold to the individual shellers. It would seem that if there were some kind of risk to the farmer, we could eliminate some of these peanuts being put in the pool if there were a market already being offered for them.

Mr. LEWIS. Thank you.

Mr. Eason, in your recommendations you advocate removing restrictions on sale and lease of peanut quotas across county lines, basically to prevent Government costs. Would you elaborate a little bit on this, please?

Mr. EASON. Well, what I'm saying is the fact that the Congressman from New York is criticizing the program really not for the cost to the taxpayer, but the fact that it's possibly unfair, and we feel as export producers that we will never be able to have anymore quota than we have unless that happens. We are peanut producers, but we're limited to the amount of quota that we can ever get in my county unless we have an increased market, and that hasn't happened since 1978, due to the fact that we just haven't had that increased market to get any extra quota peanuts across county lines.

Also, we feel that we'll have a better quality peanut and a cheaper program because some of these peanut growers in some counties do not have enough land for rotation practices, and they have to spend a lot of money for chemicals to control the nematodes, and consequently it adds to their cost of production. We feel like some of these counties have too many quota peanuts in them. As export producers, we feel they do. They need to be distributed out to some other areas.

Mr. LEWIS. Thank you very much, Mr. Eason.

Mr. Chairman, I'd like unanimous consent to enter into the record a statement by Mr. Kingston.

Mr. ROSE. Without objection, Mr. Kingston's prepared statement will appear in the record.

[The prepared statement of Mr. Kingston follows:]

STATEMENT OF HON. JACK KINGSTON

Mr. Chairman: Thank you for affording us an opportunity to examine one of the relatively few government programs which actually comes close to fulfilling its objectives of providing benefits to both producers and consumers alike at a reasonable cost to the Treasury.

The USDA peanut program, while it does have some minor shortcomings, has operated to ensure American consumers they will have an ample supply of high quality, safe, nutritious peanuts and peanut products at a fair and reasonable price. The program accomplishes this feat at a very miniscule cost to the government when compared to other programs.

I won't say there are not some fairly minor adjustments to the program which might increase its already impressive efficiencies and effectiveness. On the other hand, Mr. Chairman, I don't believe we have much to apologize for either. I am willing to listen to constructive suggestions which will refine and improve the basic program, but it is simply not fair or just for the media and politically-motivated critics to single out this program as an example of waste or inefficiency.

I want to briefly call attention to a theme which runs throughout the recent GAO study—that U.S. consumers would somehow benefit by having access to lower-priced Communist Chinese and Argentinian peanuts, while U.S. farmers would not suffer losses and be forced out of peanut production. This is simply not the case! I submit that there are significant additional costs imposed on U.S. producers which simply do not exist in other leading peanut producing countries.

American producers must bear the costs of mandated labor, environmental, soil and water conservation, and food safety standards, to name a few. Our leading competitors have few, if any, equivalent mandates. With government-imposed costs as a factor, there are two major reasons U.S. peanuts can compete at all in world markets: Their superior quality, and the fact that farmers divert a part of their quota peanut income to in effect subsidize the export sales of additionals on the world market.

I will listen carefully and read the testimony of our witnesses, Mr. Chairman, and hope against hope we can see some accurate and unbiased analysis during some of these presentations. Thank you.

Mr. ROSE. Mrs. Thurman.

Mrs. THURMAN. No questions, Mr. Chairman.

Mr. ROSE. She's just enjoying the Florida peanuts. [Laughter.]

Mrs. THURMAN. Mr. Chairman, sometimes you learn a lot more by listening.

Mr. ROSE. Gentlemen, thank you for your statements. One of the things that you've touched on that I'm very concerned about is letting the peanut go into the pool when there was an offer to buy it outside the pool that was at or above the support price, but I guess that's the farmer's right the way it is set up, to try to get the marketing association to get him a better price. You've offered us some very interesting suggestions, and we appreciate you being here. We're going to try and follow your advice. Thank you very much.

Our last panel is Mr. Wilbur Gamble from the Georgia Peanut Commission; Syd Reagan, general counsel of Southwestern Peanut Shellers, Dallas, Texas; and Mr. Evans Plowden, general counsel of Southeastern Peanut Growers, Albany, Georgia, accompanied by Mr. John Powell, executive director of Southeastern Peanuts, Albany, Georgia.

We're glad to have you. Mr. Gamble, I think you'll be first.

STATEMENT OF WILBUR GAMBLE, CHAIRMAN, GEORGIA PEANUT COMMISSION

Mr. GAMBLE. Chairman Rose, members of the subcommittee, thank you for this opportunity to testify. I'm Wilbur Gamble, a farmer from Terrell County, Georgia, and chairman of the Georgia Peanut Commission. For the sake of time, I'll not read the entire testimony, but wish it to be entered into the record.

Mr. ROSE. Without objection, your prepared statement will appear in the record.

Mr. GAMBLE. This is an issue which has concerned us greatly. Our efforts were targeted at educating growers to the potential loss and to stem the flow of quota peanuts going into the loan. Not only were our concerns stated in this newsletter, but in numerous press reports, such as exhibit B from the Albany Herald. Our concerns may not have been fully shared at that time by USDA, nor do we feel they were shared by most others in the peanut industry.

To understand such losses, we must go back and look at the events that led to the excessive cost. In 1990, the peanut poundage quota was increased 8.6 percent to 1,560,000 short tons farmer stock. Even in 1990 the domestic quota was overstated, but because of an aberration caused by the drought of 1990, this factor was never tested.

In late 1990, the Peanut Butter and Nut Processors Association petitioned the Administration to hold an investigation into increasing or ultimately suspending the section 22 import quota on peanuts. This took place and continued through early 1991. On July 3, the President signed an executive order allowing for the importation of an additional 100 million pounds of other origin peanuts. This investigation caused great market disruption, and the import restrictions were lifted only after the 1991 poundage quota was already determined and the harvest of the 1991 crop was about to begin.

Another failure on the part of the Department was to consider the impact of the 1990 drought. Failure to recognize this, coupled with the significant increase in the share of undermarketings located in the Southeast and the significant reductions in the purchase of peanuts and peanut products by the Government, and increased peanut butter imports, the Department simply set the quota too high.

The quota in 1992 was set 40,000 tons too high. Growers and shellers recommended a quota of 1,500,000 short tons. The final quota was 1,540,000 tons. Currently, there are 40,000 tons of unredeemed quota in the loan program.

According to USDA's Oil Crops Situation and Outlook, it is anticipated that we will import 28 million pounds of peanut butter with a $30 million market value. This trend started 4 years ago when the Canadian Free-Trade Agreement was signed. Canada doesn't even grow peanuts. Now with Mexico coming into the free-trade agreement, we can anticipate greater increases in imports of peanut butter and, ultimately, in raw kernels.

Exhibit F, which our commission has prepared, helps to understand where we are headed. What's most alarming is seen in exhibit G. USDA projects that during the current marketing year, the

United States will become a net importer of peanut butter and exports that are made with $325 additional peanuts.

With all this said, we are optimistic that the new Secretary will be favorable toward peanut farmers and will make a sincere effort to make this program work. According to USDA, the farm value share of the retail price of 1 pound of peanut butter is only 24 percent.

It is not our opinion that the program has any serious structural problems. What is important is for USDA to work more closely with the various segments of the industry to more realistically set a quota which will not be too high and cause any significant Government loss.

We know the committee will hear many proposals today. We encourage you to continue your wariness of snake oil salesmen.

During the 1990 farm bill, manufacturers recommended a reduction in the loan advance. Tampering with the loan structure will open the door to great opportunity for abuse.

Some forces will suggest a lower support rate. This would serve only to reduce the price paid to producers. It is doubtful that consumers would see any changes in the price of finished products.

University research tells us that based on the nature of the peanut manufacturing industry, it is unlikely that consumers would ever realize any significant price reductions based on lowering the farm value of peanuts.

If you tamper with the peanut support rates, you will openly surrender our markets to China, where their fertilizer is raw sewage, DDT is the pesticide of choice, and where human rights are nonexistent. We'll give our markets to Argentina, where they still use Dinoseb without worry for worker sterility.

In exhibit L you'll notice that in 1991 the FDA found no violative residues of any sort in U.S.-origin peanuts, while 12 percent of imports of foreign-origin peanuts had illegal residues. Our peanuts are the safest in the world, but that comes at a cost.

There are too many factors beyond the U.S. farmers' control. In 1991 our average cost of production was $570 per ton.

We're sure there will be other ideas presented today.

Our commission is charged with the presentation of facts. The facts are simple. To change the law in the middle of a farm bill puts our entire program at greatly increased risk. Our program will never pose a significant cost to the CCC as long as the quota is set accurately by USDA and as long as the additional support rate is not overstated, causing losses on crushing of additional peanuts.

The section 22 loophole which allows peanut butter in has caused material interference to the program and needs to be sewn shut.

Whatever else you may hear as speculation today, these are the facts.

I would like to make one comment not in this report on my personal feeling toward the GAO report. I think it's a bunch of bull. For somebody in a report to come out and question the efficiency of a peanut farmer—peanut farmers and farmers in general are the most efficient industry we have in America. I will challenge the Federal Government and the Federal Government employees to bring their record of efficiency up to what the peanut farmers is.

We feel that our program works well. It works for the farmer, the industry, and the consumer, and the intent of the law is achieved by USDA at no cost to the taxpayer.

Thank you again for this opportunity to present our case.

[The prepared statement of Mr. Gamble appears at the conclusion of the hearing.]

Mr. ROSE. Thank you, Wilbur. I don't know of anybody who's suggesting that we tamper with the peanut program in the middle of the farm bill, but we're certainly going to jawbone the administration a little bit on what they can do, and we've clearly got to do something about imported peanut butter. Thank you very much.

Syd Reagan, general counsel of the Southwestern Peanut Shellers Association, I understand you want to give us a summary of your testimony.

Mr. REAGAN. Yes, sir.

Mr. ROSE. We'll put your whole testimony in the record, and go ahead and make your comments.

STATEMENT OF SYD REAGAN, GENERAL COUNSEL, SOUTHWESTERN PEANUT SHELLERS ASSOCIATION, ACCOMPANIED BY CLINT WILLIAMS, CHAIRMAN

Mr. REAGAN. I appreciate that very much. On behalf of the Southwestern Peanut Shellers Association, we appreciate very much this opportunity to visit with you and discuss ways in which we think that the peanut program costs can be reduced.

I'm also accompanied today by Mr. Clint Williams, who is past president of the Southwestern Peanut Shellers Association and is currently on the board of directors.

The Southwestern Peanut Shellers Association supports very strongly the peanut price support program. We think it's a great program, and we are happy to work in helping to carry it out.

Our recommendations on how to deal with this cost problem are divided into two parts. First, I want to talk about what the Department of Agriculture can do under present legislation to minimize costs. Second, I want to talk about the broader aspects of what needs to be done with respect to this import problem.

First, we feel that the Department of Agriculture has done a very poor job in setting the quota. One reason they have done such a poor job is that they have deliberately refused to take into account certain elements which enter very significantly into the supply situation.

Under the legislation that the Department operates under, it's specified that the national peanut marketing quota shall be set to meet the domestic edible needs, the seed needs, and related uses. It makes no provision whatsoever and we would urge that it specifically take into account, first, the carryover into that marketing year. That's a part of the supply that's going to be available for domestic edible use. It's not being given any consideration at the present time.

Mr. ROSE. Let me interrupt you. Does the law say they can't consider——

Mr. REAGAN. The law does not say they can't. The law is very general, so there is no provision whatsoever that they cannot take into account the things that I'm recommending to you.

Mr. ROSE. So for them to have strong evidence that they were going to put the quota too high and then to come to us and say we need that changed in legislation, there's something kind of fishy about that, isn't there?

Mr. REAGAN. It is our contention that that is a false claim, unsupported by the legislation, and I think a careful reading of the legislation will indicate that the Department has very broad powers there. We have recommended to the Department that they take these things into account in connection with earlier determinations, but they have not followed our advice.

Mr. ROSE. That's a key point we've got to make to Mr. Espy.

Mr. REAGAN. Yes.

Mr. ROSE. Go ahead, Mr. Reagan.

Mr. REAGAN. I would urge that your General Counsel study the legislation very carefully, and I think he will agree with the view I'm presenting that they do have the authority.

First, take into account the carryover into that marketing year. Second, take into account the carryout. Obviously, you have to have an inventory going into the new year, a reasonable inventory. Three, that they give consideration to the undermarketing. At the present time, it's possible for the growers to overproduce by 10 percent over the announced quota because of the undermarketing provisions. We're not recommending that the undermarketing provisions be eliminated, we're simply recommending that the Department of Agriculture use common sense and recognize that they're going to be there.

Last, we strongly recommend that the Department of Agriculture explicitly consider the importation of peanut paste and peanut butter. Now, it was suggested by Mr. Holling that they take that into account now. This was news to me. I have given you in table 1 on my statement the exact material that was announced by the Department of Agriculture in determining the 1993 quota. There is no reference there whatsoever to the importation of peanut butter and peanut paste.

I think that the Department sometimes asks the advice of the industry as to what they ought to do. Normally, they've made up their mind before they ask us, but they do the courtesy of asking us through a notice in the Federal Register, and we're able to write in comments. But they need to be very explicit to us in what they are taking into account and how much weight they give, and you can't take past history into account with respect to peanut butter and peanut paste, because the importation has been rising at an incredible rate.

Let me move on to our second set of recommendations having to do with imports. I've been involved in the peanut industry a long time. That's why I look as old as I do. When we first established import quotas under section 22, and right on through the various changes in import quotas over the years in the past, no one ever gave a thought to the importation of peanut butter and peanut paste. It didn't exist. It was a nothing. But now peanut butter and peanut paste has become a major threat, and what is even more serious is the tremendous opportunity that foreign countries now see in being able to bring those into our country with a duty of only 3 cents.

Now, I think it is quite reasonable for peanut paste to be considered as peanuts and be viewed strictly under the present import quota for peanuts. After all, all peanut paste is is ground up peanuts. Nothing else. The difference between peanut paste and peanut butter is peanut butter is at least 90 percent ground up peanuts, and it can have up to 10 percent additives, sweeteners and so on. Sometimes they have 10 percent, sometimes less.

Mr. ROSE. Well, let me ask you something. Under the current way the law is written, peanut butter and peanut paste are outside of the import quota. Is that right?

Mr. REAGAN. That is the way it is currently being interpreted. I would not say under the law. I would say under the current interpretation.

Mr. ROSE. Well, didn't Eisenhower's statement——

Mr. REAGAN. You're correct. I'm sorry. You are correct.

Mr. ROSE. It excludes peanut butter.

Mr. REAGAN. Yes. It doesn't say anything about peanut paste, however. I believe I'm correct on that.

Mr. ROSE. It sure doesn't, but why wouldn't it be a simple matter for the—does the peanut paste contain less than 90 percent peanuts?

Mr. REAGAN. It is 100 percent peanuts. All it is is they've taken raw peanuts and ground them up. That's all.

Mr. ROSE. So then if we insist that the Customs people include peanut paste in the definition, then all the companies are going to do is import it as peanut butter and say that's exempt. Isn't that probably what would happen? So we really need to fix it more than by an administrative action.

Mr. REAGAN. I agree with you on that, yes. Now, I do think, however, that the butter situation could be dealt with by the Customs people recognizing it to be peanuts. I think it would take something more with respect to peanut butter, and it has been suggested, which we agree with, that the President issue an emergency proclamation limiting those imports. That would be our first choice. A second choice would be a substantially increased tariff on imports.

I would like to also talk a little bit about NAFTA. We obviously are very much concerned over what happens there and what is carried out, and we feel that certain minimum safeguards should be put into effect. First, that peanuts, and I would say peanut products, not be able to be brought into the United States from Mexico or Canada unless the peanuts were produced in that country.

Now, we're very much afraid that particularly Mexico, as well as Canada, will become a conduit for foreign-produced peanuts coming through Mexico and into the United States under the NAFTA agreement. So we think that it should be specified strictly peanuts produced in those countries. Well, they don't produce any peanuts in Canada.

Furthermore, that these peanuts and peanut products that come in meet the same standards that U.S.-produced peanuts are required to meet. Please recognize that in the United States the American farmer is very limited on the fertilizers he may use. They can't put anything harmful into the food the consumer is going to eat. He's very limited with respect to herbicides and insecticides that there cannot be a carryover into the finished product. These

limitations are not imposed on foreign producers, so we feel like certainly in order to protect the American consumer, these imported peanuts should meet the same standards that U.S. peanuts meet. So we would strongly urge that not only should the peanut program be protected, but the American consumer should also be protected.

I'd welcome any questions.

[The prepared statement of Mr. Reagan appears at the conclusion of the hearing.]

Mr. ROSE. Don't take a full 5 minutes. Ask him a quick question and then we'll question the whole panel together. But if you want to pop in here for a quick one, go ahead.

Mr. KINGSTON. I'll wait, if you prefer.

Mr. ROSE. No, go ahead.

Mr. KINGSTON. What I was wondering, Mr. Reagan, there is talk of the possibility of maybe having an oversight committee. You know, there's a discussion right now of this multination commission to go in and look at environmental and safety laws and adherence to common standards. If we went in with that, do you think making sure that the Mexican farmers would have to do the same things that Americans have to do as respects fertilizer laws, environmental laws, and then also worker comp laws and so forth—do you think that that would put it on a competitive playing field, or is it still just two different worlds, and there's no way we could bring Mexican standards up to Americans?

Mr. REAGAN. I'm afraid with all of the best intentions, such an effort would be fruitless. I simply don't think administratively it could be effective. Let me refer back to when we have brought foreign peanuts into the United States. They have flown right in through Customs, and a lot of them have been pure junk, should never have found their way onto the shelf in the United States and on to the American consumer, but they did. So I think we might have the same problem even with the best of efforts to try to handle this situation.

Mr. ROSE. I want to put you all on notice that at 10 a.m. on March 17, the full committee will have a NAFTA hearing with the United States Trade Representative Kantor. He will be here, and I wish all of you would prepare for me some questions, and send them to my office, that I should ask Mr. Kantor about NAFTA and its impact on peanuts.

Evans, if you'll go ahead and give us your testimony, and then we'll have a bunch of questions for all of you.

STATEMENT OF EVANS PLOWDEN, GENERAL COUNSEL, SOUTHEASTERN PEANUT ASSOCIATION, ACCOMPANIED BY JOHN POWELL, EXECUTIVE DIRECTOR

Mr. PLOWDEN. Mr. Chairman, I'm going to try to skip some of my testimony that has already been stated. I would ask that my entire statement be put in the record.

Mr. ROSE. Without objection, your prepared statement will appear in the record.

Mr. PLOWDEN. Let me say at the outset, Mr. Chairman, we're fully aware that many of the suggestions that will be made here today, including by us, will have more of an impact on growers

than they do us, because we don't directly participate in the program, although the program certainly affects us. Let me say at the outset we support it. We recognize, though, that the impact will be greater on growers, Mr. Chairman, but it's in the spirit of offering suggestions that we give our testimony here today.

Undermarketings have already been discussed, so I'm going to skip that and move to the paste issue. I know it's been discussed, but it's so critical to us I don't want to skip that part of my testimony.

We're very much afraid, Mr. Chairman, to quote an old, tired phrase, "You ain't seen nothing yet." The number of pounds coming into this country we don't think is accurately measured now. I don't know that it will be accurately measured in the future. We think huge increases are possible, if not probable. Presently, major manufacturers do not use this imported paste in any significant amount, but with the price differential so large—and that's been discussed here today, so I won't go into what it is, but it is large—it's inevitable that the major manufacturers will examine this issue. They all prefer U.S. peanuts, but with a price differential that great, the economics are going to force them to look at that alternative.

We don't know what the upper limit of that demand is. I don't want to be an alarmist, but it could be as high as 400,000 or 500,000 tons. We believe it will be 75,000 tons this year, even though the import figures don't reflect it. Our people do business in the marketplace, and they know it's there.

The primary exporters to this country of that product now are Argentina and Canada, but we know, as you have read earlier today, that the Chinese have established an office in this country and are soliciting bids for peanut butter right now. So with the Canadians and the Argentines already in and the Chinese establishing an office and making the effort that you so obviously recognized, we are afraid that there will be huge quantities of U.S. peanuts displaced.

You've already recognized the problem with the current Presidential proclamation, so I don't see any need to go into that. I also am going to skip, Mr. Chairman, a recitation—I think it's interesting, and you might want to read it—about perhaps some multiyear pools. Right now pools are 1 year. Producer participants in the pool get the profits, but the next year, if there's a loss, it goes to the CCC. That would take some careful examination, and I just throw it out as an idea.

NAFTA clearly will exacerbate this import problem. The Georgia Peanut Commodity Commission has furnished the committee, I believe, with some figures, with which we certainly do not disagree, that after only a couple of years of NAFTA, Mexican peanuts can come into this country—I'm not talking about the free part, I'm talking about the tariff part—can come into this country and undercut the price of quota peanuts. I would hope that their origin can be identified, but I'm not particularly optimistic. Mr. Smith testified this morning that they can't identify United States additional peanuts coming back in, in products from Canada, so I'm not particularly optimistic that in peanut butter coming from Mexico they're going to be able to tell whether they're Argentine, Chinese,

or Mexican peanuts. The point is that NAFTA is going to seriously exacerbate the import problem.

We think that we are at a critical point here today. Let me stop to say I don't mean action today in these suggestions that I give, but in the next few years we're going to be at that critical point.

Mr. ROSE. Let me interrupt you. NAFTA probably needs to have some language written into it that will give us a better guarantee that the peanuts that come into this country from Mexico are in fact Mexican-grown peanuts. Now, if you all can help me come up with some language that would help work in that direction, that would be very helpful. Maybe we're going to say that the peanut must come in, in the shell, it can't come in, in the form of peanut butter. I don't have a whole lot of confidence, you understand, in the customs system in Mexico, and I don't believe they'll—they miss a couple of things every now and then, and they might miss a lot of peanuts. We've got to tighten that up.

Mr. PLOWDEN. Well, our comfort level is somewhat similar to yours, Mr. Chairman.

Anyway, what we do in the next few years through the next farm bill is going to determine the economic health of shellers, growers, and this entire peanut industry. It goes without saying that shellers must have growers. We cannot exist without the fine domestic supply of peanuts that we have. We can't compete with subsidized production from the Far East.

We prefer to take a long-term view. We would like to see some changes made, and there are a number of potentials. These are suggestions that will ensure the viability of this industry into the next century. We don't think that we can ignore the economic realities of the market. We've avoided the price issue for a number of years, but because of the issues we discussed—NAFTA, peanut paste—we don't think we can avoid talking about the price now. It is probably too high.

We can take a short Band-Aid approach to the problems we currently face. We can reduce the quota because of reduced demand or because of increased importation of peanut paste. That will solve the problem, Mr. Chairman, for a year, but as long as the support price remains so high and the differential between that and the imported product, the demand for the lower-priced product will increase and is, frankly, in danger of exploding.

We think the changes, not now, but in due course, have to be made in order to ensure that long-term viability. It is logical if we have a lower price to assume that we will regain markets lost to imported paste, because American manufacturers prefer the American product. The cost to the Government will be reduced, if not eliminated, and, therefore, the criticism based on cost will be eliminated. Concerns about poor quality of imported products will be eliminated, since that product cannot compete with the quality of American peanuts and is only being introduced now because of the tremendous economic advantage it holds.

We also think there's a logical argument to be made that it will better place the industry in a position to compete with NAFTA and GATT, should they come about. As I've said, the only reason these foreign products are coming is because of price. Manufacturers will pay a premium for U.S. peanuts. However, under the current con-

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ditions there's a limit to what that premium will be. We're afraid we've passed that limit, and we suggest that we need to get back within that limit.

To take an approach that constantly reduces quota because demand for American peanuts keeps falling because of imports and other matters, we're accepting the fact—if we just continually reduce the quota, we're accepting the fact that we're a dying industry. Our association doesn't believe that that's the proper approach, and we believe that the whole industry—growers, shellers, and particularly that housewife, who we all depend on—will be better off if we examine the support price to make it more competitive and increase the demand for our product.

We're at a crossroad or will be soon. We can shrink and protect an ever-decreasing quota poundage, or we can face the realities that are out there, meet them head on, and assure the viability and growth of the industry into the next century. Obviously, Mr. Chairman, our association prefers the latter.

Now, let me make a comment, because I want these comments of our association to be taken in context, Mr. Chairman. Some have suggested that my talking to this committee among all our friends here about lowering support prices is somewhat like that old western movie where they caught the criminal and they said that he was going to have a fair trial and, when it was concluded, a first-class hanging.

But I want it to be taken into context, Mr. Chairman, that we're part of this industry. We've supported most of what's happened, and we're here in a good faith effort. People may disagree with us, but I think our motives are in the right place. We're trying to point out to the subcommittee and to our friends where we think the dangers are, and we think those dangers are huge under the current circumstances.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Plowden appears at the conclusion of the hearing.]

Mr. ROSE. All right. I have the greatest respect for you and John Powell, and I've enjoyed working with you through the years. I thought you were going to make another analogy than what you said about hanging, but I'm reminded of times when I caught my youngest son beating on his sister, and I was calling him in to complain about his beating on his sister, and he would try to divert me by asking me why he didn't have more allowance or something. [Laughter.]

There has been widely abroad a notion that your association was greatly involved in encouraging the large 1991 quota. Now, can you set us straight on that? Did you all encourage the Department of Agriculture not to reduce further the 1991 quota, or did you have any elected officials go to them to encourage them to keep it fairly high?

Mr. PLOWDEN. Mr. Chairman, my recollection—and I'm searching my memory—my recollection is that we were in a ballpark somewhat similar to the growers at that time. I do not recall us lobbying for a high quota, no, I do not.

Mr. ROSE. I think we need to get past this, because I like what you're saying, and I think we've gotten a lot of good suggestions

here today, all of which we've got to take into consideration. But you understand that most of the losses occurred in your association. Isn't that right?

Mr. PLOWDEN. You mean most of the losses occurred in the Southeastern United States?

Mr. ROSE. Yes.

Mr. PLOWDEN. Yes, I do understand that.

Mr. ROSE. And so the other pools are not real happy, you understand, with having to send their profits to cover that.

Mr. PLOWDEN. I fully understand that, Mr. Chairman.

Mr. ROSE. And that may be the total place this notion got started from and why we're having some people testify here before us today that maybe we need to be able to let the various pools keep their profits for a period of time and not pay them out immediately.

Mr. PLOWDEN. Mr. Chairman, let me say I do not recall the exact figure that we recommended to the Department, but I believe we have always recommended less than they have said. I may be corrected, and I will look at the minutes and furnish you with the exact figure. But I do not believe we have varied very far from the growers.

Mr. ROSE. OK, my friend.

Any questions, Mr. Lewis.

Mr. LEWIS. Mr. Chairman, I have no questions for the panel. I'd just like to point out that I think this panel as well as the preceding panels were excellent panels, and, for this member anyway, there were some great concerns as to where you stood on NAFTA and the peanut associations throughout the country and what your concerns were, and I think you brought them forth this morning in great detail and articulated them perfectly for us.

Now, as the chairman has pointed out, we do have a window of opportunity coming up where we have an opportunity to get some signed agreements possibly into the NAFTA agreement—not that the NAFTA agreement is going to be rewritten, but there would be additional side agreements—and I think he has requested of each panel information so that this information can be put forth and look toward the additional side agreements in the NAFTA agreement. So I think it would behoove all of you to work with him on that, because I think it's most important. It's the only window of opportunity we'll have, and then we'll be into the knock-'em-down dog fighting on whether we're for or against this thing.

So I thank all of you, and I think that you certainly have done a great job peanutwise today.

Thank you.

Mr. ROSE. Thank you, Mr. Lewis.

First, please help us with the kind of questions you want us to ask Mr. Kantor in the NAFTA agreement. My opinion is that NAFTA, the way it's constructed now, will virtually ruin the peanut program over a period of time, and we're going to have to make some changes or we're not going to be able to survive.

I'm going to take a delegation from this committee very shortly down to see Secretary Espy, because it is very important that he understand what powers he has, and, Syd, if you feel like it in the next couple of weeks, if you could write me a short memo, or any of you could write me a memo, on what you think the Secretary's

powers are to set the quota. If he is not mandated to not consider carryovers, it is a real ruse to claim that the law needs to be changed to say that. In other words, if he's got the power to consider it now and doesn't, we've got a problem, and we need to make Mr. Espy sensitive to that, and I think we can.

We're all in this together, but nothing will kill this program any quicker than excessive costs to the Commodity Credit Corporation. We're fighting off the GAO criticism on one hand, and we've got NAFTA on the other, and then we've got a farm program that cost a bunch of money in 1991, and some in 1992, and hopefully nothing in 1993. We're going to have a whole bag of worms to carry to the Congress in 1995, so we've got to be clever and quick on our feet to correct these things as best we can before that happens. I do not intend to sound like I'm picking on anybody. This is a family. We all work together, and we'll continue to.

I want to thank all of you for coming today for what I think has been a very useful hearing for us to get this on the record so we can start working on your suggestions.

Are there any further comments anybody would like to make?

[No response.]

Mr. ROSE. If not, the hearing is adjourned. Thank you all very much.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Specialty Crops and Natural Resources, Committee on Agriculture, House of Representatives

For Release on Delivery
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PEANUT PROGRAM

Changes Are Needed to Make the Program Responsive to Market Forces

Statement of John W. Harman, Director,
Food and Agriculture Issues,
Resources, Community, and Economic
Development Division

GAO/T-RCED-93-18

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the findings of our recent report on the U.S. Department of Agriculture's (USDA) peanut program.[1] In response to a request from Representative Charles E. Schumer, we (1) compared and contrasted the agricultural and economic conditions that existed when the program was created in the 1930s with current conditions, (2) assessed the impact of the program on producers, consumers, the government, and international trade, and (3) identified changes needed in the program. USDA administers the peanut program to control the supply of U.S. peanuts and to guarantee producers a minimum price for their crops. Such programs have become increasingly vulnerable to criticism because of their costs and impact on trade negotiations.

In summary, the peanut program has generally stabilized the U.S. peanut supply while supporting producers' income. However, peanut farming, like other U.S. agricultural operations, has undergone massive changes since the 1930s: Most importantly, the numbers of peanut farms and producers have decreased and the sizes of the remaining farms have increased. By 1991, fewer than one-fourth of all peanut producers held over four-fifths of the available quota pounds. Moreover, because the yearly quota support price since 1982 has been well above production costs, quota peanut producers have had an opportunity to receive, on average, a 51-percent minimum net return after costs as calculated by USDA to set the quota support price. Thus, the peanut program has provided substantial benefits to the relatively small number of producers that hold most of the quota. Furthermore, owners of more than one-half of the quota pounds--who do not grow peanuts themselves with that quota--benefit from the program because they receive income from selling or renting their quota to others.

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[1] Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces (GAO/RCED-93-18, Feb. 8, 1993).

From 1982 through 1989, the world market price for U.S. peanuts averaged $494 per ton and the U.S. quota support price for domestic peanuts averaged $714 per ton.[2] Consequently, economic studies show that U.S. consumers are spending hundreds of millions of dollars more each year for peanuts with the program than they would spend without the program. In addition, USDA spends tens of millions of dollars each year to administer the peanut program, make mandatory payments to producers, and cover the high cost of the peanut products that it buys under various food assistance programs. Lastly, the program may affect international trade, primarily by increasing the volume of U.S. peanuts available for export. This increase should cause a decline in the prices paid for peanuts by foreign consumers.

In view of the many changes that have occurred in agriculture since the peanut program was created--including the globalization of agricultural markets, the reduction in the number of peanut producers receiving most of the program's benefits, and the increases in costs to consumers--we recommended in our February 1993 report that the Congress restructure the peanut program to make it more responsive to market forces. As part of this restructuring, we recommended, among other things, that the Congress (1) reduce the annual quota support price to more closely parallel the cost of producing peanuts and the world market price and (2) reexamine the method of assigning quota because a large volume of quota is owned by persons who do not grow peanuts with that quota.

BACKGROUND

Chaotic economic conditions during the Great Depression led the Congress in 1934 to institute the peanut program to control the

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[2]These figures, as well as others discussed in this testimony, are in 1991 dollars.

domestic supply of peanuts and protect producers' incomes. Although the program has been amended several times, it currently controls the domestic supply through a national poundage quota system and import restrictions. Generally, only producers holding a portion of the assigned quota may sell their peanuts domestically (as quota peanuts), while producers without quota must export theirs (as additional peanuts). The program protects producers' incomes through a two-tiered system that sets minimum support prices for quota and additional peanuts. In 1991, the quota support price was $643 per ton and the additional support price was $150 per ton. Producers may sell their peanuts directly on the market at or above these support prices, or they may place their peanuts under loan with USDA and have the government sell them. Also, because quota is transferrable, the peanut program can provide income to those quota owners who decide to sell or rent their quota to others. USDA's Agricultural Stabilization and Conservation Service administers the peanut program; the Commodity Credit Corporation (CCC) provides funds to producers who place their peanuts under loan rather than sell them directly on the market.

PEANUT FARMING HAS CHANGED SIGNIFICANTLY OVER TIME

Peanut farming, like other U.S. agricultural operations, has become increasingly concentrated as smaller farms have been consolidated to form larger-scale operations. The number of peanut farms with quota has decreased--from 172,981 in 1950 (the earliest data available) to 41,249 in 1991--as the average farm size has increased, from 12 acres to over 49 acres. Furthermore, through technological advances and other improvements, such as increased applications of fertilizer, improved techniques for irrigation, and the development of new varieties of seed, peanut farms now produce yields nearly five times greater than the yields produced in 1934.

THE PEANUT PROGRAM PROVIDES HIGH RETURNS TO A SMALL NUMBER OF PRODUCERS

In 1991, 6,182 producers--or fewer than 22 percent of the 28,867 U.S. peanut producers--controlled over 80 percent of the quota. The peanut program is particularly generous to these producers because it sets quota support prices at levels that virtually guarantee high net returns after costs. From 1982 through 1992, the annual quota support price averaged $697 per ton, while the estimated cost of producing peanuts (which includes variable and fixed cash expenses plus allocations for capital equipment replacement and unpaid labor) averaged $463 per ton--a difference of $234 per ton, or an average minimum net return after costs of 51 percent. We should point out, however, that this average net return cannot necessarily be equated to actual profits to producers. To determine profits, we would have to know the actual prices at which peanuts were sold and the actual production costs incurred by producers.

Moreover, because the quota support price is required to increase each year when production costs go up but not to decrease when costs go down, the gap between prices and costs has generally increased over time. The peanut program also provides payments (known as disaster transfer payments) to protect quota producers from losses in peanut quality caused by adverse conditions. From 1985 through 1990, CCC paid producers over $63 million for these losses (averaging $10.5 million a year). Also, peanut producers--mainly those with additional peanuts--who place their peanuts under loan may receive dividends when CCC sells their peanuts for more than the support prices. From 1981 through 1990, CCC paid producers $645 million in dividends (averaging $64.5 million a year).

QUOTA OWNERS WHO DO NOT GROW PEANUTS RECEIVE PROGRAM BENEFITS

The peanut program also supports persons who own farms with assigned quota but elect not to grow peanuts with that quota because the program allows these persons to sell or rent their quota to others. In Georgia alone during 1990, sales of quota were estimated at $2.3 million. As for rentals, in 1988, 68 percent of all quota owners, who held 56 percent of the available quota, rented their quota to others. On the basis of that rental level, we estimated that peanut producers in 1991 could have paid $208 million for the privilege of using someone else's quota.[3] Although quota sales and rentals provide income to persons who do not produce peanuts with that quota, this program provision prevents quota from being transferred outside county boundaries. Thus, it limits competition because peanut producers in other counties who may be more efficient cannot buy or rent that quota.

THE PEANUT PROGRAM COSTS U.S. CONSUMERS HUNDREDS OF MILLIONS OF DOLLARS EACH YEAR

Under the peanut program, producers' incomes are supported primarily through transfers, that is, a "tax" that consumers pay to producers in the form of higher market prices for peanuts. Economic studies and our analysis estimate that the peanut program adds, on average, anywhere from $314 million to $513 million each year to consumers' costs to buy peanuts. About 76 percent to 88 percent of these costs are transferred directly to producers as income, and the remaining portion represents a social welfare loss

[3]According to officials from USDA and the peanut industry, quota rentals in 1991 ranged from 10 cents to 14 cents a pound. On the basis of these varying figures, we estimated that a reasonable quota rental rate in 1991 would have been 12 cents a pound. Our estimate assumes that all of the quota was rented at the same price, regardless of the rental arrangement.

that reflects inefficiencies in the program's use or allocation of resources. We should point out that consumers' costs are measured on a farmers' stock basis: In other words, they represent the costs to the first buyers of U.S. peanuts. We did not determine the extent to which these costs are passed on to the ultimate consumers of the finished peanut products.

USDA SPENDS MILLIONS OF DOLLARS YEARLY TO OPERATE THE PEANUT PROGRAM

The federal government's (i.e., USDA's) average costs resulting from the peanut program were substantially reduced by legislative changes in 1977 and 1981, which transferred most of the program's costs to U.S. consumers. Nevertheless, from 1986 through 1990, USDA still incurred average costs of $34.4 million a year: $14.5 million to cover CCC loan losses, $4.5 million for program administration, $11.0 million for disaster transfer payments, and $4.4 million to help producers and exporters develop foreign markets for peanuts. In addition to these USDA costs, which are for the most part directly related to the peanut program, the agency incurs higher costs in its food assistance programs because it must buy peanuts at the quota support price rather than at the lower world market price.

THE PEANUT PROGRAM MAY ALSO AFFECT INTERNATIONAL TRADE

Given the volume of U.S. peanuts exported, the peanut program may affect the international market as well as the domestic market. The magnitude of the program's effect on international trade is unclear, however, because there is uncertainty as to the extent that (1) the program results in additional U.S. exports, (2) the quantity of U.S. exports affects world prices, and (3) producers would respond to price changes on the world market if the peanut program did not exist.

RECOMMENDED CHANGES TO THE PEANUT PROGRAM

The chaotic agricultural and economic conditions that caused the Congress to establish the peanut program 58 years ago no longer exist. Most peanuts in the United States today are produced by large agribusinesses rather than by the small family farms that dominated agriculture in the 1930s. Moreover, in view of ongoing and future negotiations concerning changes in agricultural policies, domestic policies have become increasingly vulnerable to criticism because of their contribution to budgetary expenditures by taxpayers, costs to consumers, and trade disputes. As agreements are reached among the major agricultural trading nations, government supports such as those associated with the peanut program are likely to change. Accordingly, the Congress needs to take a closer look at the peanut program and make it more responsive to market forces.

In our February 1993 report, we recommended that the Congress restructure the peanut program to make it more responsive to market forces. As part of this restructuring, we recommended that the Congress provide for a period of transition to allow producers time to make adjustments in their investment decisions. In determining the length of any transition period, the Congress, with assistance from USDA, should consider such factors as (1) producers' recent expectations concerning the life of the peanut program and (2) the useful life of capital investments in equipment specifically purchased for peanut production.

We also recommended in our report that the Congress take the following actions:

-- Reduce the annual quota support price so that, over time, the price will more closely parallel the cost of producing peanuts and the world market price.

-- Reexamine the method of assigning quota in view of the fact that a large volume of quota is owned by persons who do not grow peanuts with that quota. If the poundage quota system is continued, the Congress should allow quota to be transferred to producers outside the boundaries of counties where the quota is currently assigned in order to promote competition among the more efficient peanut producers.

-- Amend the peanut legislation to allow the quota support price to decrease as well as increase each year as production costs decrease and increase.

-- Permit government agencies--such as USDA, which procures peanuts and peanut products for various food assistance programs--to purchase domestic peanuts at the world price rather than at the higher quota support price.

- - - - -

In commenting on a draft of our report, USDA concurred with our recommendations but did not agree with all of our interpretations of data and conclusions. In particular, USDA questioned our estimate of the value of quota rentals and our definition of consumer. While we made minor revisions to our final report to address USDA's comments, none of the revisions changed the message of the report or our conclusions or recommendations.

Mr. Chairman, this completes my prepared statement. I would be pleased to answer any questions that you or Members of the Subcommittee may have.

(Attachment follows:)

(150112)

GAO

United States General Accounting Office

Report to the Honorable Charles E. Schumer, House of Representatives

February 1993

PEANUT PROGRAM

Changes Are Needed to Make the Program Responsive to Market Forces

RCED-93-18

[illegible] 065 187

GAO United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-249797

February 8, 1993

The Honorable Charles E. Schumer
House of Representatives

Dear Mr. Schumer:

This report responds to your request that we review the U.S. Department of Agriculture's peanut program. The report compares and contrasts the agricultural and economic conditions that existed when the program was created in the 1930s with current conditions and assesses the program's impact on producers, consumers, the government, and international trade. The report discusses the changes that have occurred in agriculture over the years, including a continued reduction in the number of producers receiving most of the benefits of the peanut program and the increased costs to consumers. The report contains recommendations to the Congress aimed at making the peanut program more responsive to market forces.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. At that time, we will send copies of the report to the appropriate House and Senate committees and subcommittees; interested Members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached on (202) 275-5138. Other major contributors to this report are listed in appendix V.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

The U.S. Department of Agriculture (USDA) administers a program to control the supply of U.S. peanuts and guarantee producers a minimum price for their crops that substantially exceeds the world market price. Such programs have become increasingly vulnerable to criticism because of their costs and impact on trade negotiations. In response to a request from Representative Charles E. Schumer, GAO (1) compared and contrasted the agricultural and economic conditions that existed when the peanut program was created with current conditions; (2) assessed the impact of USDA's peanut program on producers, consumers, the government, and international trade; and (3) identified changes needed in the program.

Background

Chaotic economic conditions during the Great Depression led the Congress in 1934 to institute a program to control the domestic supply of peanuts and protect producers' incomes. Although the peanut program has been amended several times, the program continues to control the domestic supply—now, through a national poundage quota system and restrictions on imports. Generally, only producers holding a portion of the assigned quota may sell their peanuts domestically (as quota peanuts), while producers without quota must export theirs (as additional peanuts). The program protects producers' incomes through a two-tiered system that sets minimum support prices for quota and additional peanuts. Producers may sell their peanuts directly on the market at or above these support prices, or they may place their peanuts under loan with the USDA and have the government sell them. Producers who grow quota peanuts for the domestic market are guaranteed a high support price (loan rate), while producers who grow additional peanuts are guaranteed a much lower support price (loan rate). Because the program guarantees prices, it also guarantees income to owners of the quota who decide to sell or rent their quota to others. USDA's Agricultural Stabilization and Conservation Service administers the peanut program; the Commodity Credit Corporation (CCC) provides funds to producers who place their peanuts under loan rather than sell them directly on the market.

Results in Brief

The peanut program has provided income to producers and generally stabilized the U.S. peanut supply. However, peanut farming, like other U.S. agricultural operations, has undergone massive changes since the 1930s: Most importantly, the numbers of peanut farms and producers have decreased, and the sizes of the remaining farms have increased. By 1991, fewer than one-fourth of all peanut producers held (owned or rented) over

four-fifths of the available quota pounds. Moreover, because the yearly quota support price since 1982 has been well above production costs, quota peanut producers have had an opportunity to receive, on average, a 51-percent minimum net return after costs. Thus, the peanut program has provided substantial benefits to the relatively small number of producers who hold most of the quota. Furthermore, owners of more than one-half of the quota pounds—who do not grow peanuts themselves with that quota—benefit from the program because they receive income from selling or renting their quota to others.

From 1982 through 1989, the world market price for U.S. peanuts averaged $494 per ton, and the U.S. quota support price for domestic peanuts averaged $714 per ton. [1] Consequently, economic studies show that U.S. consumers are spending hundreds of millions of dollars more each year for peanuts because of the program. In addition, USDA spends tens of millions of dollars each year to administer the peanut program, make mandatory payments to producers, and cover the high cost of peanut products it buys under various food assistance programs. Finally, the program may affect international trade primarily by increasing the volume of U.S. peanuts available for export. This increase should cause a decline in prices paid for peanuts by foreign consumers.

Principal Findings

Peanut Farming Has Changed Significantly Over Time

Peanut farming has changed as smaller farms have been consolidated to form larger-scale operations. Consequently, the number of peanut farms with quota has decreased—from 172,981 in 1950 (the earliest data available) to 41,249 in 1991—as the average farm size has increased, from 12 acres to over 49 acres. Furthermore, through technological advances and other improvements, peanut farms now produce yields nearly five times greater than the yields produced in 1934.

The Peanut Program Provides High Returns to a Small Number of Producers

In 1991, 6,182 producers—or fewer than 22 percent of the 28,867 U.S. peanut producers—controlled over 80 percent of the quota. The peanut program is particularly generous to these producers because it sets quota support prices at levels that virtually guarantee high net returns after costs. From 1982 through 1992, the annual quota support price averaged

[1] All figures in this report are in 1991 dollars.

$697 per ton, while the estimated cost of producing peanuts (which includes variable and fixed cash expenses plus allocations for capital equipment replacement and unpaid labor) averaged $463 per ton—a difference of $234 per ton, or an average minimum net return after costs of 51 percent. Moreover, because the quota support price is required to increase each year when production costs go up but not decrease when costs go down, the gap between prices and costs has generally increased over time. The peanut program also provides disaster transfer payments to protect quota producers from losses in peanut quality caused by adverse conditions. From 1985 through 1990, CCC paid producers over $63 million for these losses. Also, peanut producers—mainly those with additional peanuts—who place their peanuts under loan may receive dividends when CCC sells their peanuts at more than the support prices. From 1981 through 1990, CCC paid producers $645 million in dividends.

Quota Owners Who Do Not Grow Peanuts Also Receive Program Benefits

The peanut program also supports persons who own farms with assigned quota but elect not to grow peanuts with that quota because it allows these persons to sell or rent their quota to others. In Georgia alone during 1990, sales of quota were estimated at $2.3 million. As for rentals, GAO found that 68 percent of all quota owners in 1988, who held 56 percent of the available quota, rented their quota to others. On the basis of that rental level, GAO estimates that peanut producers in 1991 could have paid $208 million for the privilege of using someone else's quota. Although quota sales and rentals provide a source of income to persons who do not produce peanuts with that quota, this program provision prevents quota from being transferred outside county boundaries. Thus, it limits competition because peanut producers in other counties who may be more efficient cannot buy or rent that quota.

Most Program Costs Are Paid for by U.S. Consumers

Economic studies and GAO's analysis estimate that the peanut program adds, on average, anywhere from $314 million to $513 million each year to consumers' costs of buying peanuts. About 76 to 88 percent of the cost is transferred directly to producers as income, and the remaining portion represents a social welfare loss that reflects inefficiencies in the program's use or allocation of resources.

USDA Spends Millions of Dollars Yearly to Operate the Peanut Program

In supporting the peanut program from 1986 through 1990, USDA incurred average annual costs of $34.4 million: Net losses from the CCC loan program averaged $14.5 million; program administration costs,

$4.5 million; disaster transfer payments, $11 million; and export promotion programs, $4.4 million. In addition, government agencies like USDA, which are required to purchase peanuts and peanut products for various food assistance programs at the high quota support price, continually pay more to buy peanuts than they would without the program.

The Peanut Program May Also Affect International Trade

Given the volume of U.S. peanuts exported, the peanut program may affect the international market as well as the domestic market. The magnitude of the program's effect on international trade is unclear, however, because there is uncertainty as to the extent to which (1) the program results in additional U.S. exports, (2) the quantity of U.S. exports affects world prices, and (3) producers would respond to price changes on the world market if the peanut program did not exist.

Recommendations to the Congress

Because the agricultural environment that caused the Congress to establish the peanut program 58 years ago no longer exists, GAO recommends that the Congress restructure the program to make it more responsive to market forces. As part of this restructuring, the Congress should provide for a period of transition to allow producers time to make adjustments in their investment decisions. Also, the Congress should (1) reduce the annual quota support price so that, over time, the price will more closely parallel the cost of producing peanuts and the world market price; (2) reexamine the method of assigning quota since a large volume of quota is owned by persons who do not grow peanuts with that quota; (3) allow the quota support price to decrease as well as increase each year as do production costs; and (4) permit government agencies to purchase peanuts at the world market price rather than at the higher quota support price.

Agency Comments

In commenting on a draft of this report, USDA concurred with the recommendations but did not agree with all of GAO's interpretations and conclusions. In particular, USDA questioned GAO's estimate of the value of quota rentals and GAO's definition of "consumer." As discussed in chapter 5 and appendix IV, GAO believes its estimate of the value of quota rentals is reasonable, and GAO's definition of consumer as the first buyer of U.S. peanuts is a standard technique used for measuring program impact.

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Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
ERS	Economic Research Service
GAO	General Accounting Office
NASS	National Agricultural Statistics Service
USDA	U.S. Department of Agriculture

(The complete report is held in the committee files.)

STATEMENT OF DALLAS R. SMITH
Director, Tobacco and Peanuts Division
Agricultural Stabilization and Conservation Service
United States Department of Agriculture
before the
Committee on Agriculture
Subcommittee on Specialty Crops and Natural Resources
U.S. House of Representatives
March 10, 1993

Mr. Chairman and Members of the Committee, my name is Dallas R. Smith. I am the Director of the Tobacco and Peanuts Division of the Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. I appreciate this opportunity to meet with you and to discuss the general administration of the peanut program as it relates to losses to the Commodity Credit Corporation (CCC) on the 1991 crop of peanuts and changes that have been made to avoid such losses in the future.

The national poundage quota concept was enacted as part of the two-tier price support program in 1978 to bring into balance the size of the quota eligible for quota price support with the domestic demand for peanuts. Under subsequent legislation the quota was reduced from 1,680,000 tons for the 1978 crop to 1,100,000 tons for the 1985 crop.

The Food Security Act of 1985 modified the legislative formula in the Agricultural Assistance Act of 1938 (the 1938 Act) for decreasing the quota and tied the quota size to domestic demand. Amendments made by the Food, Agriculture, Conservation, and Trade Act 1990 to the 1938 Act continued the same quota formula, but raised the minimum national quota from 1,100,000 to 1,350,000 tons.

Following this formula, the Secretary of Agriculture set the 1991 crop national poundage quota at 1,550,000 tons which was 10,000 tons less than the 1990 poundage quota, but 110,000 tons larger than the 1989 quota. Planted and harvested acres were the largest since 1951 and yields averaged 2,444 pounds per harvested acre, the largest since 1985.

The second largest amount of quota peanuts ever pledged as collateral for CCC under price support loans since the poundage program began in 1978 occurred with respect to the 1991 crop.

Correspondingly, a large increase in CCC outlays resulted from the losses realized from the sale of 1991 crop peanuts for the 1991 crop.

The 1991 loan stocks consisted of 535,180 tons of loan peanuts of which 251,739 tons were quota peanuts. The balance was additional peanuts. Total CCC price support loan outlays were about $215 million.

Of the 283,000 tons of additional loan stocks, approximately 42,400 tons of additional loan peanuts were sold by CCC through the immediate buyback procedure. Another 46,000 tons of additionals were sold under the redemption sale policy for domestic edible use. The balance of the additional loan inventory of 174,000 tons was sold for export and domestic crushing into oil and meal.

The majority of the losses to CCC occurred on the sale of quota peanuts for crushing. Approximately 212,000 tons of the 251,000 tons in inventory were sold for domestic or export crushing at prices far below the loan acquisition cost. Only minor losses occurred on the sale of Segregation I additional peanuts.

These are the general factors that resulted in the record level of quota crushing losses for the 1991 crop. I would like to now go into greater detail and discuss the corrective actions that either have been taken or may be taken to get the peanut program back on track.

First, I would like to discuss the statutory allowance for up to a 10 percent increase in the basic quota due to prior year quota undermarketings. It has been argued in the past that this undermarketing provision tends to be a wash since the annual undermarketings for a crop has averaged about 10 percent of the basic quota. While this fact is true over a multiple year period, it still presents a potential for price support losses during any specific year. The impact of this potential loss was realized during 1991. This was a year in which the basic quota was increased by prior year undermarketing to the maximum statutory level of 10 percent. Likewise, it was also a year of high yields and record production. As a result, quota marketings during 1991 were 1,636,000 tons or about 106 percent of the basic quota.

Next, I would like to discuss the impact of the Department's estimates for domestic food use. Over three-fourths of the national quota represents domestic food use. Considering shrinkage and crushing grade peanuts separated from the edible kernels during milling, the food use requirement probably accounts for over ninety percent of the national quota. Thus, the accuracy of the announced quota is dependent upon the Department's ability to project food use and to convert these projections into farmer stock production. The conversion error in this estimation process introduced the second major source of quota crushing losses under the 1991 crop.

The projected level of domestic food use utilized in establishing the 1991 quota overestimated the 1991 recovery from the 1990 drought-induced downturn in use by approximately 100,000 tons. In retrospect, this optimistic projection of quota demand further contributed to excess supplies. The net result was a record level of price support loan stocks and crushing losses.

Other factors also contributed to 1991 huge inventories and losses. These were: (1) an industry tendency to blend smaller kernels (14/16 screen sizes) back into edible stocks; (2) an increasing tonnage of peanut paste imports; and (3) an International Trade Commission's recommendation to open the U.S. consumer market to imports of shelled and in-shell peanuts during July 1991.

The blending of smaller kernels back into edible stocks, after The Department had calculated the quota assuming these kernels would be diverted to the oil market, accounted for approximately 2 percent of domestic food use error.

Also of increasing concern are peanut paste imports. Peanut paste imports are displacing the projected market for quota peanuts. However, the current impact of imports on the quota has been somewhat mitigated by quota calculations that exclude product demand for peanuts met by imports during the marketing year immediately preceding the year to be projected. However,

this methodology provides no protection against estimation errors resulting from import growth rates that exceed the rate used to project current utilization in the establishment of the quota. That rate is normally 2 to 3 percert.

In the way of a correction, the Department has: (1) increased oversight and review of domestic edible use projections; (2) further refined the quota estimation process by accounting for the blending of smaller kernels back into edible stocks. In addition, CCC has amended its program regulations and policies to enhance the marketing of loan stocks. Under these refinements, the 1993 crop quota was established at 1,496,000 tons, down 44,000 tons from 1992 crop quota and 54,000 tons from 1991 crop quota. Also, CCC's export sales policy has been modified to make loan peanuts more competitive in the export edible and export oil markets.

The aforementioned refinements should reduce the potential for current and future quota losses. However, they offer no assurance or protection regarding potential losses associated with undermarketing procedures and from increasing imports.

The 1991 basic quota of 1,496,000 tons will be increased to 1,645,600 tons with the projected application of previously unapplied and newly accrued undermarketings. Thus, the 1993 quota still has substantial potential for program losses depending on the size and quality of the crop.

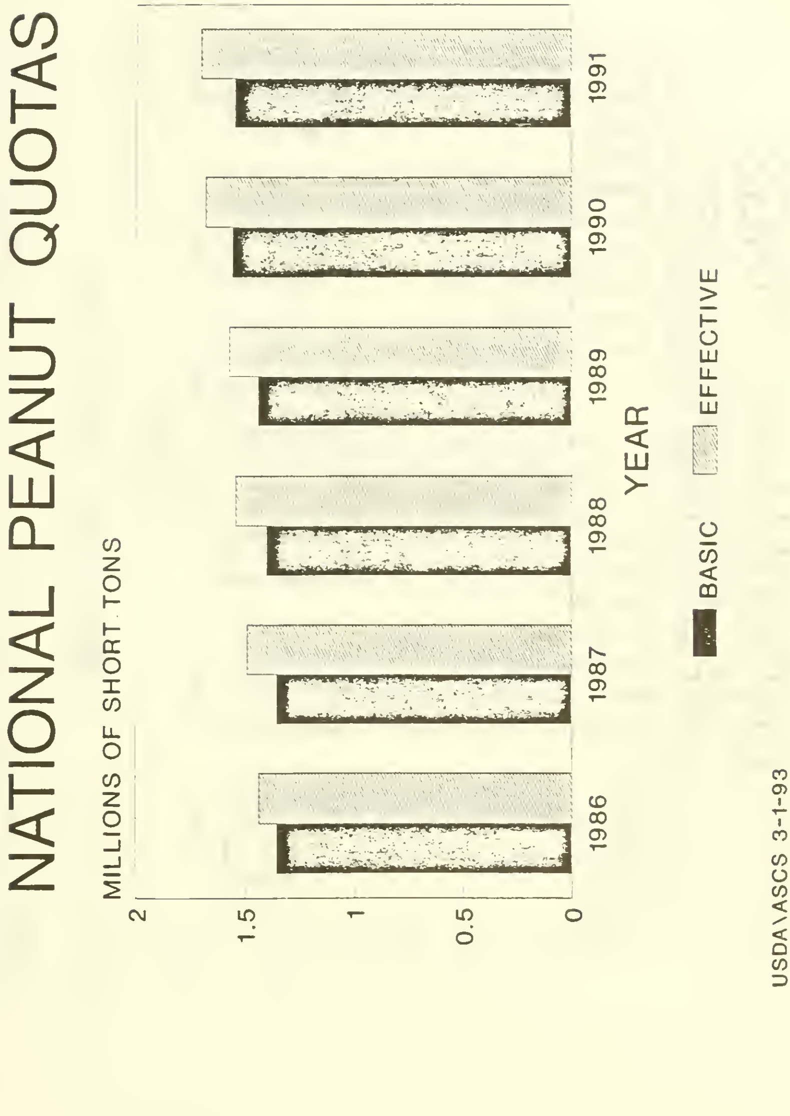
Based on the Department's 1991 crop experience, it appears that legislation may be necessary to alter the potential for losses because of the application of undermarketings. Possible actions could be the reduction of applied undermarketings from the current 10 percent to a maximum of 5 percent. This modification in the undermarketing formula would have prevented most marketings in excess of the basic quota during the 1991 crop season. An alternative could be to provide the Secretary with the authority to exercise discretion in setting the national poundage quota equal to the maximum level of undermarketings that may be applied in a given year. The 1938 Act currently provides the Secretary with discretion in setting the flue-cured and burley tobacco quotas by adjusting the quotas upward or downward by 3 percent. Other possibilities include while adding undermarketings to the formula, also limiting the lifespan of any undermarketings to a fixed period, perhaps 1-3 years, to encourage their prompt usage. Or, a more extreme move would be to eliminate undermarketings altogether.

The proposed North American Free Trade Agreement (NAFTA) and the potential for significant modification in the General Agreement on Trade and Tariffs (GATT) as it relates to the current import quota on peanuts present the possibility of an increase in imports of peanuts and peanut products and thus the potential for losses to the peanut program if these potential imports are not taken into consideration when setting the domestic poundage quota.

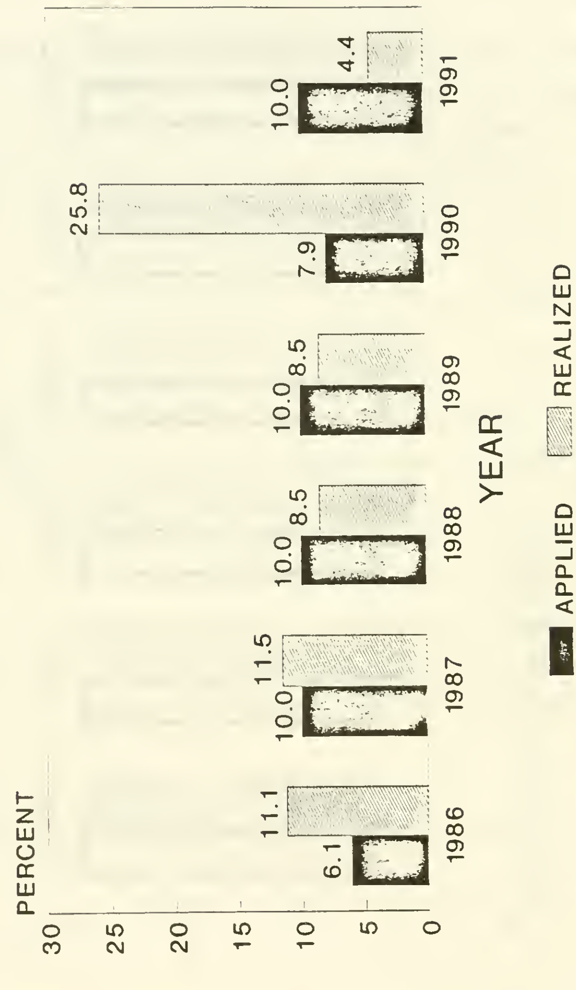
Administrative actions to account for increasing imports were reviewed by the Department prior to establishing the 1993-crop quota level. However, in arriving at the final decision on the 1993 quota it was determined that no administrative action was necessary due to the current estimation methodology and the lack of impact of recent trade agreements at this time. However, the Department intends to further review administrative actions in this regard in the establishment of the 1994 and 1995 quotas.

Mr. Chairman, this concludes my prepared statement. We will be glad to respond to any questions you or members of the subcommittee may wish to ask.

(Attachments follow:)

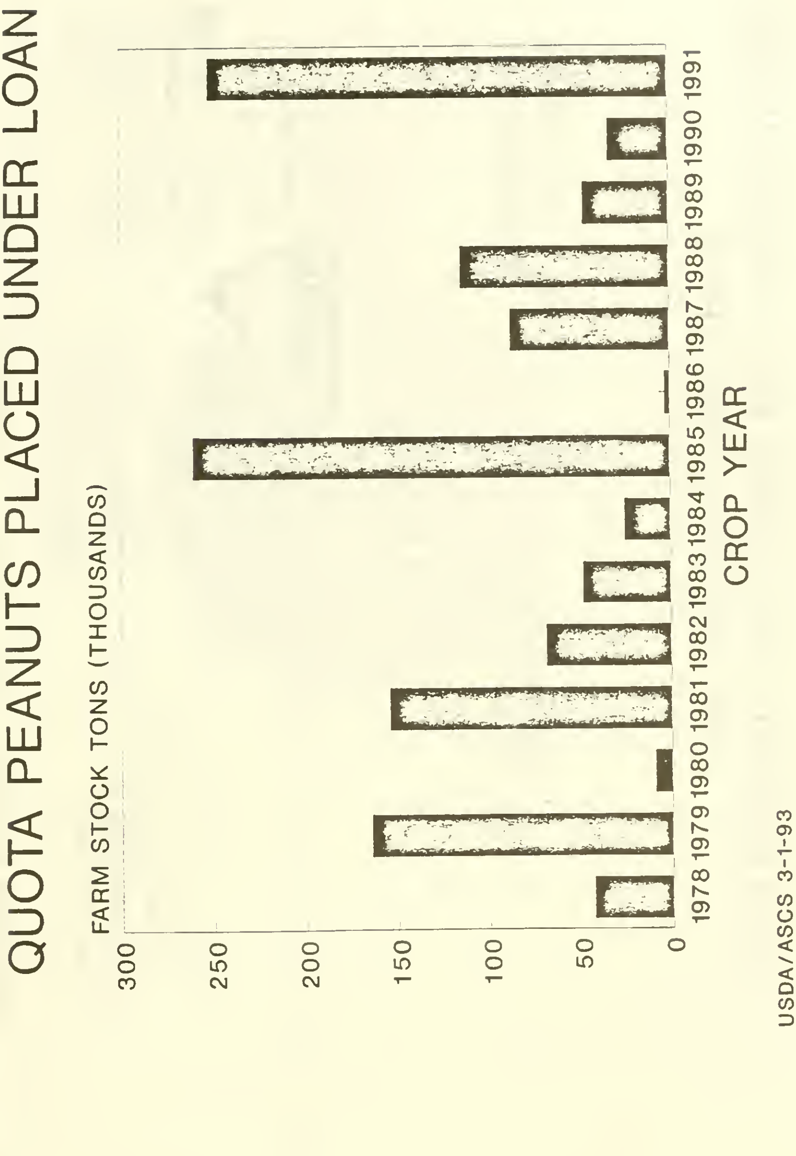

NATIONAL PEANUT QUOTAS
MILLIONS OF SHORT TONS
2
1.5
1
0.5
0
1986
1987
1988
1989
1990
1991
YEAR
BASIC
EFFECTIVE
USDA\ASCS 3-1-93

UNDERMARKETINGS
APPLIED AND REALIZED

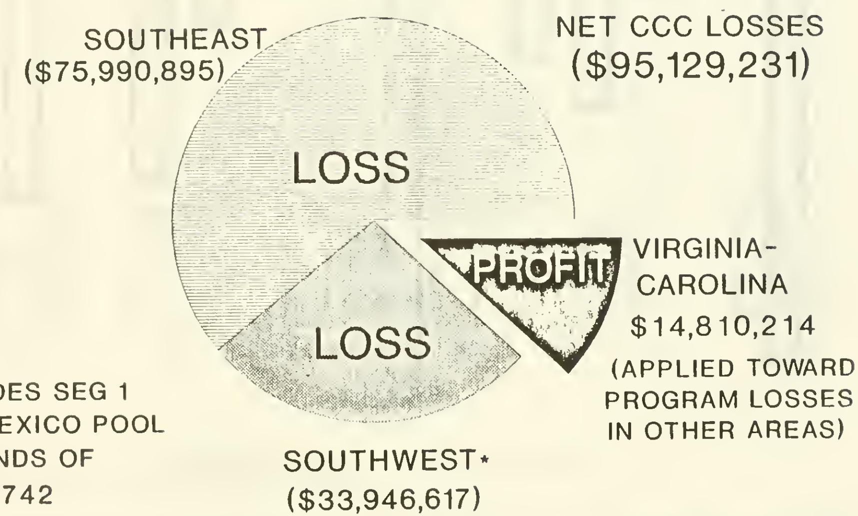


VALUES ARE PERCENT OF BASIC QUOTA

USDA/ASCS 3-1-93


QUOTA PEANUTS PLACED UNDER LOAN
FARM STOCK TONS (THOUSANDS)
300
250
200
150
100
50
0
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
CROP YEAR
USDA/ASCS 3-1-93

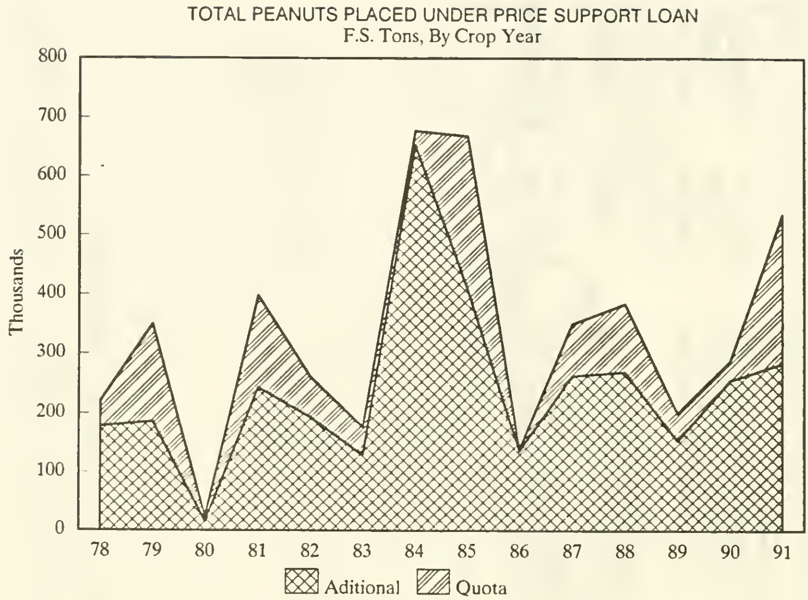
1991 PEANUT PROGRAM NET PROFIT/LOSS BY PRODUCTION AREA



USDA/ASCS 3-1-93

TFAB PURCHASES OF PEANUT PRODUCTS, with Farmers Stock Equivalent, and TFAB Value, SY/FY

	86	87	88	89	90	91	92
				-- pounds --			
Peanut Butter	22,003,039	26,996,305	26,827,325	80,967,437	114,620,004	10,788,777	86,068,350
Granules	1,247,715	1,538,418	2,271,696	1,742,769	770,910	462,000	704,550
Roasted Peanuts	7,527,150	9,544,104	10,976,322	9,562,944	8,643,534	2,508,018	8,036,148
				-- Tons --			
Equiv. F.S. Tons	25,180	31,053	31,976	82,167	113,023	11,680	85,705
				-- Dollars --			
Value of TFAP purchases	$22,413,249	$33,767,205	$30,881,864	$75,618,132	$103,857,360	$13,028,449	$82,079,817


TOTAL PEANUTS PLACED UNDER PRICE SUPPORT LOAN
F.S. Tons, By Crop Year
Thousands
800
700
600
500
400
300
200
100
0
78
79
80
81
82
83
84
85
86
87
88
89
90
91
Aditional
Quota

TESTIMONY

NATIONAL PEANUT GROWERS GROUP
before the
Subcommittee on
SPECIALTY CROPS AND NATURAL RESOURCES
March 10, 1993

Presented by
James Earl Mobley, Chairman; National Peanut Growers Group
President, Alabama Peanut Producers Association

The peanut program, under the direction of this Subcommittee, has undergone many changes in the past. We in the industry have strived to craft a supply management program which works successfully with little cost to Commodity Credit Corporation or the taxpayer. The issue of cost led us in 1985 to agree to a concept known as national cross compliance which requires that no additional pool dividends are paid to growers in any of the three major growing areas until these dividends are first used to offset any losses on quota peanuts.

Prior to the 1991 crop year, no national losses on edible quality, or Segregation 1, peanuts were incurred by the peanut program during the five year and after national cross compliance came into being. During these five years growers gave up over $28,000,000 of additional pool dividends to offset area quota pool losses leaving a no cost program on edible quality peanuts. However, the 1991 crop resulted in a loss to Commodity Credit Corporation of over $80,000,000 on edible quality peanuts which in our minds was caused by three main factors discussed in detail below.

The major factor in determining whether or not the peanut program shows a loss on edible quality peanuts or not is the level at which the Secretary sets the national poundage quota. From 1986 until 1989, the national quota increased from 1,355,000 tons to 1,440,000

tons, or an increase of 6.2% spread over 3 years. For the 1990 crop year, however, the Department chose to increase the national quota from 1,440,000 tons to 1,560,000 tons, an increase of 8.3%. We feel there was no justification for this amount of increase as it appeared at the time that little or no increase was warranted. Some grower associations in a Subcommittee meeting on February 27, 1990, expressed their concerns about the possibility of losses from the upcoming 1990 crop because of this huge increase.

The 1990 crop, however, posed no problem to the program from a cost standpoint because of the short crop experienced in the Southeast. Had 1990 been anywhere near an average crop year in terms of production, we feel that Commodity Credit Corporation would have shown a sizable loss on edible quality peanuts.

Premature talk of a short crop in 1990 unfortunately triggered increased product prices that resulted in decreased sales of peanut products. This definitely happened during the 1990 crop year. On top of this consumption decrease, peanut butter was temporarily pulled from the school lunch program. Even after considering these two factors, the 1991 national quota was set at 1,550,000 tons, or a mere 10,000 ton decrease from the inflated 1990 level. Production was average or above in all three areas in 1991 which sure enough resulted in the previously mentioned $80,000,000 loss on edible quality peanuts. Had the quota not been raised so dramatically in 1990, or had an adjustment been made from 1990 to 1991 to reflect the consumption decrease, much if not all of this loss could have been prevented.

To make matters worse, USDA announced their preliminary quota for the 1992 crop at 1,610,000 tons or 3.8% higher than the 1991 quota which had caused tremendous program losses. Alarmed by the prospects of a disastrous situation becoming worse, representatives of the growing and shelling segments of the industry met with USDA officials to express their concerns. Even though this contingent presented a case for a 1992 quota of 1,500,000 tons, USDA announced the 1992 level at 1,540,000 tons, or only 10,000 tons below the 1991

level. Even after a below average crop in the Virginia-Carolina area and a cut in acres of 22% in the Southeast alone, it appears at this time likely that the program will incur losses on the 1992 crop. The loss will be substantially less than that experienced during 1991, but to the grower any amount of loss is too much.

It appears that the national quota level for 1993 of 1,496,000 tons, or 2.8% less than that of 1992, is finally somewhat back in line. However, the National Peanut Growers Group had recommended a lower quota mainly due to dramatic increase in imported peanut butter and paste, which will be discussed later.

The second contributing factor to the 1991 quota loss was the temporary lifting of Section 22 in July of 1991 to allow nearly 18,000,000 pounds of foreign peanuts into the U.S. only 30 days away from the beginning of an all time record high U.S. peanut crop. There is no need to dwell on this matter now as we know that you, Mr. Chairman, and members of your Subcommittee agreed with us in feeling that this action was unnecessary and that the imports would displace 1991 domestic crop production, which is in fact what happened.

The third contributing factor to our program losses is the dramatically increasing level of peanut butter and paste imports into the U.S. As you are aware, Section 22 covers peanuts and peanut products but not peanut butter. The accompanying chart will show you the severity of this problem. For instance, from the marketing year 1989-1990 to the 1991-1992 marketing year, a period of only two years, peanut butter/paste imports rose from 5,872,790 pounds to 19,586,117 pounds, an increase of 234%. Already during the first five months of the current marketing year the level of imports is 14,917,251 pounds, or 87% above last year's level at this point in the marketing year. Projections are that we could easily have over 35,000,000 pounds of imports during this marketing year.

What disturbs us even more is the origin of this product. As you are aware, the U.S. and Canada signed a free trade agreement in 1988 which took effect in January of 1989. At

that time imports of peanut butter/paste from all origins except Canada were assessed a duty of 6.6¢ per kilogram, or 3¢ per pound. Imports from Canada were assessed a duty of 5.9¢ per kilogram, or 2.7¢ per pound. Since that time, the duty of Canadian peanut butter has been reduced by 10% per year to the present level of 3.2¢ per kilogram, of 1.5¢ per pound, while the product from other origins has remained at the original 6.6¢ per kilogram.

As expected, since this agreement took place imports from Canada qualifying for preferential duties have increased from 1,404,755 pounds to 11,396,372 pounds during the 1991-1992 marketing year, an increase of 711%. In just the first five months of this marketing year the level is 9,337,253 pounds, or 128% higher than the first five months of last year. Out of the total imports of peanut butter/paste during the 1991-1992 marketing year, 59% originated from Canada. In the first five months of the current marketing year, 71% of the total was imported from Canada. It is appalling to us that these imports which are disrupting our supply managed program are coming from a country which was allowed to exempt its own supply managed commodities from the current trade negotiations.

Each pound of peanut butter/paste imports displaces 1.89 pounds of domestic production on a farmer stock basis causing domestic production to be placed in the loan and be crushed at a loss. Until a solution can be found to this problem, we feel that USDA needs to begin taking not only current levels of imports but also expected increases into consideration when setting the national quota. As for solutions, the National Peanut Growers Group has appealed to the Secretary to bring peanut butter and/or paste under Section 22. We hope the Subcommittee will support us on this endeavor.

This subject brings about two other areas of concern. Many people in the industry feel that some of the product being made in Canada is being processed using previously exported contract additional peanuts from the U.S. If so, this practice is an violation of the section of the Peanut Title dealing with the prohibition against reentry of additional peanuts. Unfortunately, the problem is that this situation is awfully hard to prove.

We also bring to you our concerns about this matter as it relates to the pending NAFTA agreement. We have appealed to have the above mentioned reentry prohibition become a permanent part of the agreement. We have also requested that inspection guidelines be put in place to require that products from Mexico adhere to the same quality parameters as our domestic production. We would ask that you obtain some background information on this issue by requesting from all agencies involved - USDA, AMS, APHIS, FDA, and Customs - what their inspection requirements are for not only all products entering this country or to be entered under the proposed NAFTA but also the peanuts presently being entered under the annual Section 22 quota. It is our impression that the requirements you will find are not up to par with what is required for U.S. production.

(Attachment follows:)

U.S. PEANUT BUTTER IMPORTS

REPORTING PERIOD	CANADA CFT lbs.	CANADA TARIFF Rate/kg 1/	CANADA NON CFT lbs.	TARIFF Rate/kg	ARGENTINA(lbs.)	TARIFF Rate/kg	CHINA(lbs.)	TARIFF Rate/kg	OTHER(lbs.)	TARIFF Rate/kg	TOTAL(lbs.)
Aug.82-July83			94,785	$.03			794	$.03	3,916	$.03	99,495
Aug.83-July84			42,027	$ 03					4,884	$ 03	46,911
Aug.84-July85			100,087	$ 03	98,572	$.03			1,113	$ 03	199,772
Aug 85-July86			305,756	$.03	492,492	$.03					798,248
Aug 86-July87			242,147	$.03	3,909,553	$ 03			383,258	$ 03	4,534,958
Aug 87-July88			624,559	$.03	2,513,748	$ 03			367,813	$.03	3,506,120
Aug 88-July89	1,404,755	$ 03/.059	281,433	$ 03/.066	3,406,918	$.03/.066	153,703	$.066	35,721	$ 03/.066	5,282,530
Aug.89-July90	3,174,869	$.059/.052	478,881	$.066	2,160,839	$ 066	37,002	$.066	21,199	$.066	5,872,790
Aug 90-July91	5,282,267	$ 052/.046	2,593,001	$.066	6,023,825	$ 066	370,156	$.066	37,621	$.066	14,306,870
Aug 91-July92	11,396,372	$ 046/.039	214,305	$.066	6,727,033	$.066	1,243,726	$.066	4,681	$ 066	19,586,117
Aug 92-Dec.92*	9,337,253	$.039/.032	1,232,421	$.066	3,950,679	$.066	237,649	$.066	159,249	$.066	14,917,251

*Indicates partial year

Information compiled from U.S. Census & Commerce Dept. reports.

1/Tariff reduced by 10% of the original $.066 January 1 of each year

STATEMENT OF THE VIRGINIA-CAROLINA PEANUT ASSOCIATION
BEFORE THE SPECIALTY CROPS AND NATURAL RESOURCES SUBCOMMITTEE
OF THE HOUSE AGRICULTURE COMMITTEE
ON MARCH 10, 1993

My name is W. J. Spain, Jr. I am the Chairman of the Legislative Committee of the Virginia-Carolina Peanut Association, Inc. We appreciate the opportunity to appear before your fine Subcommittee and present evidence as to how the government's price support program for peanuts can be reduced in the future.

The members of this association consist of substantially all of the peanut shellers in the states of Virginia and North Carolina. Our members buy all of their supplies from peanuts produced in these areas by farmers. Our members sell both shelled and inshell peanuts to the trade.

The government's price support program suffered a severe financial loss in 1991. This loss was due to increased planting in the other production areas, a large carry-over of under-marketings and above average yields. When this total of peanuts was added to the quota allocation there was simply too much quota tonnage for an industry struggling to get back to pre 1990 usage.

The CCC disposal of 1992 crop Farmers Stock will likely result in a much smaller loss. We might add that the Virginia-Carolina loan pools had significant profits for both the 1991 and the 1992 crops. Profits from the Virginia-Carolina area offset a portion of the losses of the other two areas.

We were beginning a healthy recovery of the loss of our markets due to the 1990 disaster but now we are confronted with a serious new problem. Imports of peanut butter or peanut paste are increasing at an alarming rate.

Imports of peanut butter were insignificant until the 1990-1991 year when they increased almost 2 1/2 times. We are now projecting the volume to more than double from approximately 20,000,000 pounds in 1992 to 40,000,000 pounds in 1993 and we are not sure that there is a full accounting at this time.

The Peanut Stocks and Processing Report for December 1992 - January 1993 shows dramatic domestic declines of the production of peanut butter and other peanut products.

It is our opinion that if something is not done quickly we will experience a dramatic cut back in the usage of U.S. peanuts in our peanut products.

The problem is world peanut values are much cheaper than U.S. supported prices for domestic use and the open door policy and cheap tariffs are allowing foreign products to displace a larger and larger portion of the established domestic use of U.S. processors.

Already a large portion of the industrial peanut butter marketed in bulk to cookie and candy people have been taken over by these imports and we understand that plans are now being made to enter retail brands of peanut butter.

Mr. Chairman, we need help now before it is too late. We are not sure what the quickest, surest solution is, but we would like for you to consider the

following: The Eisenhower Proclamation of 1953 included "Peanuts, whether shelled, not shelled, blanched, salted, prepared, or preserved (including roasted peanuts, but not including peanut butter)" with a limit of 1,709,000 pounds. Peanut paste is being identified as the major problem. Is peanut paste just ground peanuts and subject to the import limitations under the definition above?

We recommend:

(a) That President Clinton issue a new proclamation removing "but not including peanut butter" from the 1953 Proclamation; or

(b) If that is not possible then at the very least the President should cap the level of peanut butter or peanut paste imports to the current level for the duration of the present Peanut Program; or

(c) Increase the tariffs on peanut butter or peanut paste.

Either (a), (b) or (c) above can be done as an emergency proclamation under a paragraph of Section 22(b), which says:

> "In any case where the Secretary of Agriculture determines and reports to the President with regard to any article or articles <u>that a condition exists requiring emergency treatment</u>, the President may take immediate action under this section without awaiting the recommendations of the Tariff Commission . . ."

Peanut paste is simply ground peanuts and may be subject to the present import limitations.

Mr. Chairman, Congress has authorized a Peanut Program with the remaining 93-94-95 crops to be covered. The quota tonnage for the 1993 crop has been set at 1,496,000 tons plus any undermarketing carry-over. In addition, we now anticipate a large carry over of commercial 1992 crop stocks which is due largely to the displacement by the imports. The cost for the 1993 crop could now be quite large and in our opinion every pound of imports will contribute to the cost. For the 1994 and 1995 crops there is a minimum quota of 1,350,000 tons. If current trends are not changed even the minimum tonnage required by law may result in a government cost. The authority to deal with any major interference is clearly defined and we hope you will help us set it in motion.

The U.S. Peanut Program has assured the American consumer the highest quality peanuts grown and the purest peanut products in the world. If we open up our markets to unregulated foreign origins we will do a disservice to our country.

If the alternative is to reduce the quota allocation for domestic use all segments of our industry will suffer.

This problem could be handled administratively. Administrative action would probably be much quicker and save the government a considerable amount of money immediately.

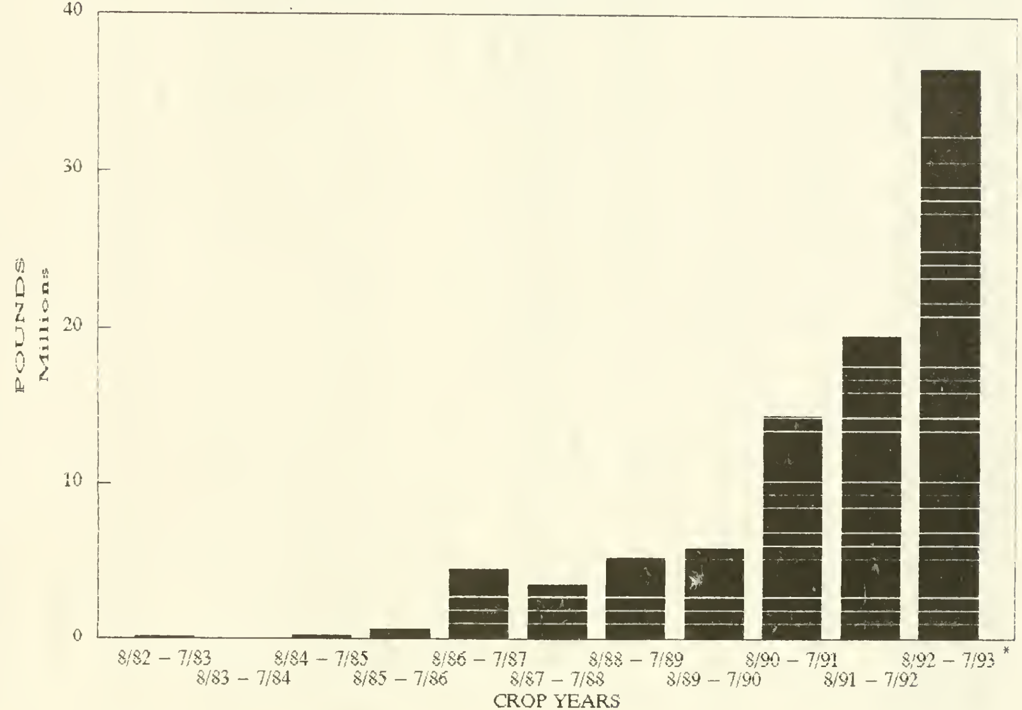
The foregoing would solve the immediate problem very rapidly. The long term solutions of Peanut Program costs and program improvements will no doubt be dealt with by the Congress when the Peanut Program expires with the 1995 crop.

Our Association has worked with Congress on all of the Peanut Programs to date and we hope you will call us to assist in some of our challenging problems of the future.

(Attachments follow:)

EXHIBIT I

PEANUT PASTE IMPORTS BY CROP YEAR

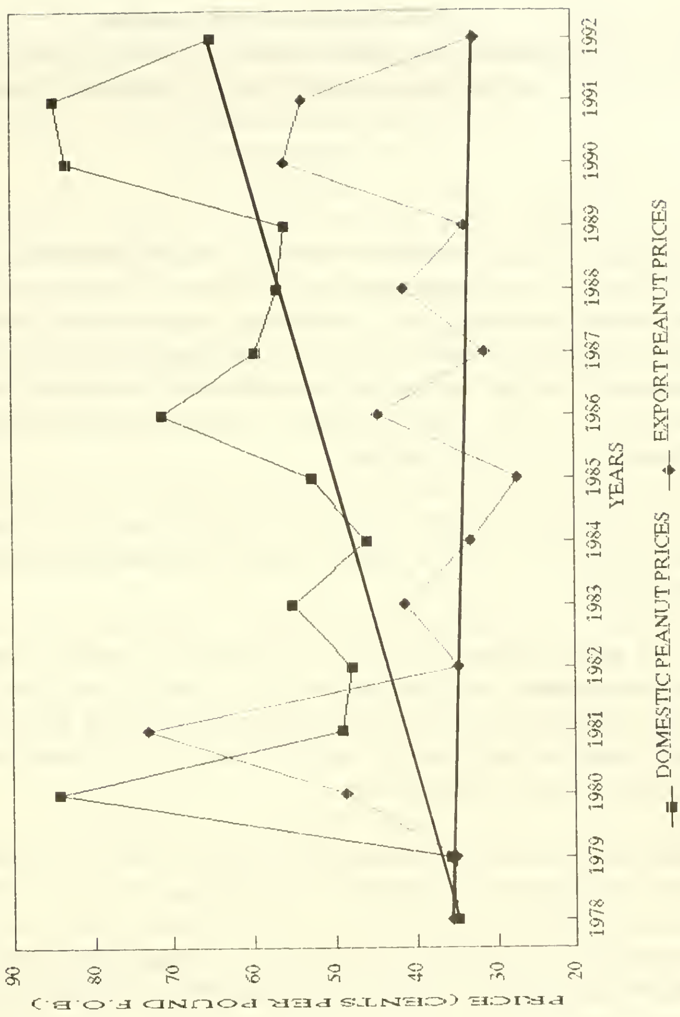


*PROJECTED

EXHIBIT II

HISTORY OF RUNNER MEDIUM PEANUT PRICES

1978 – 1992



STATEMENT OF JEFF CRAWFORD
PRESIDENT OF THE FLORIDA PEANUT PRODUCERS ASSOCIATION
BEFORE THE SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES
WASHINGTON, DC
MARCH 10, 1993

CHAIRMAN ROSE, OTHER HONORABLE CONGRESSPERSONS, LADIES AND GENTLEMEN, I AM JEFF CRAWFORD, PRESIDENT OF THE FLORIDA PEANUT PRODUCERS ASSOCIATION. I REPRESENT 1,500 PEANUT PRODUCERS, FROM 25 COUNTIES IN FLORIDA, WHICH PRODUCE MORE THAN 100,000 ACRES OF PEANUTS WITH AN ESTIMATED AGRIBUSINESS VALUE OF $250 MILLION. THEREFORE IT IS VITAL FOR US IN NORTH AND NORTH WEST FLORIDA TO PRESERVE THE PEANUT PROGRAM.

I UNDERSTAND THE AGENDA TODAY IS TO DETERMINE WHY THERE HAVE BEEN LOSSES IN THE PEANUT PRICE SUPPORT PROGRAM AND HOW THIS CAN BE CORRECTED.

FIRST AND FOREMOST, I WANT TO EMPHASIZE THAT THE PEANUT PROGRAM IS NOT BROKEN AND DOES NOT NEED A COMPLETE OVERHAUL. HOWEVER, I KNOW THERE ARE CERTAIN ADJUSTMENTS THAT CAN BE MADE TO FINE-TUNE THE PROGRAM SO THAT IT WILL CONTINUE TO WORK FOR FARMERS, CONSUMERS, AND TAXPAYERS.

EVEN WITH THINGS AS PREDICTABLE AS THE "COMING AND GOING" OF THE TIDE, SOMETIMES A SERIES OF EVENTS CAN CAUSE A "TIDAL WAVE." SIMILAR EVENTS HAVE HAPPENED IN OTHER FARM COMMODITIES DURING THE CROP SEASON OF 1992. LOW PRICES, COUPLED WITH RECORD YIELDS, CAUSED AN INCREASE IN AGRICULTURE EXPENDITURES EXCEEDING $5 BILLION.

IT IS NOT MY PURPOSE TODAY TO PLACE BLAME ON OTHER GROWING REGIONS OR ON OTHER SEGMENTS OF OUR INDUSTRY. NOR IS MY PURPOSE

TO SAY THESE LOSSES WERE INSIGNIFICANT AND UNIMPORTANT. MY PURPOSE IS, IN FACT, TO PUT INTO PERSPECTIVE EVENTS THAT MAY HAVE HAPPENED BEYOND ANY ONE GROUP'S CONTROL AND TO LOOK FOR ANSWERS THAT WILL PREVENT THIS FROM HAPPENING IN THE FUTURE.

THE SERIES OF EVENTS BEGAN IN THE SUMMER OF 1990. THE MOST SEVERE DROUGHT IN FORTY YEARS CUT PRODUCTION IN THE SOUTHEAST BY 40 PERCENT. TOWARD THE END OF THE 1990 HARVEST SEASON, UNUSUALLY HIGH PRICES WERE PAID FOR LESS THAN FIVE PERCENT OF "FARMER STOCK" PEANUTS. THIS SET THE STAGE FOR MUCH HIGHER PRICES TO THE MANUFACTURERS AND ULTIMATELY THE CONSUMER. CONSUMPTION OF PEANUT PRODUCTS, LIKE OTHER FOOD ITEMS, IS USUALLY DRIVEN BY PRICE AND AT THIS TIME THE CONSUMPTION RATE BEGAN TO ERODE.

DURING THE SPRING OF 1991, CONTRACTS TO GROWERS WERE HIGHER THAN NORMAL. GROWERS, ANXIOUS TO RECOUP THEIR LOSSES FROM THE PREVIOUS YEAR, PLANTED THE LARGEST CROP SINCE 1952.

IT SEEMED NOW THAT THE PEANUT INDUSTRY WAS A "RUN-AWAY TRAIN." A GROUP OF MANUFACTURERS URGED THE BUSH ADMINISTRATION TO LOWER IMPORT BARRIERS, SET FORTH IN SECTION 22, AND ALLOW IMPORTED PEANUTS INTO THE COUNTRY. WITH ADDED PRESSURE FROM MEDIA DURING THE SUMMER OF 1991, THE ADMINISTRATION AGREED TO ALLOW IMPORTATION OF PEANUTS TO BEGIN. TO THE EMBARRASSMENT OF MANUFACTURERS AN EXTREMELY LOW QUALITY PEANUT, SOME NOT FIT FOR HUMAN CONSUMPTION, WERE IMPORTED AND ONLY SERVED TO FURTHER ERODE CONSUMPTION AND CONSUMER CONFIDENCE.

COINCIDING THESE EVENTS, THE 1991 PEANUT CROP WAS EXPERIENCING NEAR PERFECT GROWING CONDITIONS IN ALMOST ALL REGIONS. GOOD CONDITIONS CONTINUED THROUGHOUT HARVEST AND THE RESULT WAS THE LARGEST PEANUT CROP IN HISTORY. THIS, COMBINED WITH REDUCED CONSUMPTION, A NATIONAL QUOTA POUNDAGE THAT WAS PROBABLY TOO HIGH, AND UNDERMARKETING TACKED ON, TOTALED OVER 1.7 MILLION TONS OF QUOTA PEANUTS.

THE SERIES OF EVENTS HAD COME FULL CIRCLE TO CAUSE OUR "TIDAL WAVE." ADDING INSULT TO INJURY, PRICES OFFERED FOR "OIL-STOCK PEANUTS" WERE NO HIGHER THAN ADDITIONAL LOAN VALUE. BY NOW LOSSES WERE INEVITABLE. THERE WASN'T ANYTHING TO DO EXCEPT CUT OUR LOSSES AND LOOK FOR SOLUTIONS.

IN 1992 MANY GROUPS WITHIN OUR INDUSTRY HAD LEARNED A BITTER LESSON. CONTRACT PRICES AND FARMER'S ACREAGE WERE MORE IN LINE WITH ACTUAL USE. MARKETING NEWS ABOUT HE 1992 CROP SEEMS TO BE MUCH MORE ENCOURAGING. ACCORDING TO OUR GFA REPRESENTATIVE, WE ARE AT LEAST LOOKING TO BREAK EVEN, AND THE WORST CASE SCENARIO IS ALL LOAN PEANUTS WILL BE CRUSHED AT A $3 MILLION LOSS.

ALREADY, IMPROVEMENTS HAVE BEEN MADE TO PREVENT THE PROBLEM FROM OCCURRING AGAIN. USDA, AFTER BEING URGED BY THE NATIONAL PEANUT GROWERS GROUP, HAS DECREASED THE NATIONAL QUOTA BY 44,000 SHORT TONS TO 1,496,000 SHORT TONS. EFFORTS ARE ALSO BEING MADE TO CONVINCE SECRETARY OF AGRICULTURE, MIKE ESPY, TO HELP REDUCE THE INFLUX OF IMPORTED PEANUT BUTTER FROM CANADA, WHICH ONLY SERVES TO UNDERMINE OUR PROGRAM.

IF WE AS AMERICAN PEANUT GROWERS ARE TO PRESERVE AND MAINTAIN A VIABLE PEANUT PROGRAM WE MUST LOOK EARNESTLY AT THE FOLLOWING AREAS OF CONCERN:

1. ADJUST QUOTA POUNDS TO BE MORE IN LINE WITH DOMESTIC CONSUMPTION, CARRYOVER SHOULD BE CONSIDERED.
2. LOOK AT THE CONCEPT OF EACH AREA ASSOCIATION BEING ALLOWED TO BUILD A RESERVE FOR FUTURE LOSSES.
3. HAVE SOME RISK INVOLVED WITH PUTTING QUOTA PEANUTS IN THE POOL.
4. BUY-BACK PROVISIONS SHOULD BE REVIEWED, PERHAPS. BUY-BACKS SHOULD NOT BE ALLOWED UNTIL AFTER ALL QUOTA PEANUTS ARE HARVESTED AND MARKETED OUT OF ASSOCIATION POOLS.
5. CONSIDER UNDERMARKETING MORE CLOSELY WHEN SETTING THE NATIONAL QUOTA EACH YEAR.

THESE ARE AREAS OF CONCERN THAT MAY BE IMPROVED UPON TO STRENGTHEN THE CURRENT PROGRAM. I PLEDGE TO YOU, THE HONORABLE MEMBERS OF THIS COMMITTEE AND TO OTHER SEGMENTS OF OUR INDUSTRY, THAT THE GROWERS OF FLORIDA ARE WILLING TO WORK TOGETHER TO SEEK THE BEST POSSIBLE SOLUTIONS IN ORDER TO PRESERVE AND MAINTAIN THE NATIONAL PEANUT PROGRAM.

I ONCE HEARD DEAN KLECKNER, PRESIDENT OF THE AMERICAN FARM BUREAU, SAY THAT LEADERSHIP WAS NO MORE THAN "COMMON SENSE AND GOOD JUDGEMENT." NOW IS THE TIME FOR US IN THE PEANUT INDUSTRY TO DEMONSTRATE LEADERSHIP.

THANK YOU CHAIRMAN ROSE AND HONORABLE MEMBERS OF THE SUBCOMMITTEE FOR ALLOWING THESE COMMENTS.

RESPECTFULLY SUBMITTED,
JEFF CRAWFORD, PRESIDENT
FLORIDA PEANUT PRODUCERS ASSOCIATION

Statement By

Export Peanut Producer Association

(Representatives Attending)
Darvin Eason
Vernon Nolan
Rossie McMillan

Presented To

Subcommittee on Specialty Crops & Natural Resources
House Committee on Agriculture
Wednesday, March 10, 1993
1300 Longworth H.O.B.
Washington, D. C.

Export Peanut Producer Association
Specialty Crops & Natural Resources
Wednesday, March 10, 1993

Mr. Chairman:

The Export Peanut Producer Association is a new organization, formed primarily tc focus on the promotion and production of peanuts for the export market. My name is Darvin Eason, and I am a peanut producer from Cook County, Georgia.

The testimony I present for your consideration today has not been formally adopted or voted upon yet by the individual members of the association, but I can assure you it represents the general consensus of the many producers who will meet soon to ratify these positions.

We first must address the question of why the price support program for peanuts has lost money recently. To fully understand the situation, let's look at what happened in 1990, which set the stage for losses in 1991-92.

In 1990 there was a significant crop disaster in the Southeast which reduced peanut production by 350 - 400,000 tons. Poor quality also reduced the normal high-quality harvest by another 25 percent. Prices paid for peanuts were extremely high as buyers scrambled to obtain adequate supply during the shortage, and this high market sent producers a signal to increase production the following year.

Higher peanut product prices in 1990 and 1991, however, resulted in a lowering of domestic consumption and import levels of paste increased. The 1990 and 1991 U.S.D.A. school lunch and food distribution programs cut back on their usage as well, to only about 50 percent of 1989 levels.

In 1991 peanut plantings increased by 400,000 acres, and yields were average to above-average in all production areas. This resulted in the largest, best quality crop in history of some 2.45 million tons for the year. In 1991 we saw a 94.8% delivery of quota peanuts, which was the highest ever under the current price support program. As a result of the increased production, higher product pricing, reduced consumption, and an ill-timed increase in national poundage quota, some 165,000 tons of domestic 1991-crop peanuts went to the crush.

Mr. Chairman, we believe there is a fair and permanent solution to our problem which will enable us to retain the vital benefits of the peanut program for producers, while also meeting our obligation to minimize the costs to the American taxpayer.

<u>Steps Needed To Ensure A No-Loss Program</u>

(1) Reduce quota in future years to ensure production is more in line with consumption forecasts;

(2) Eliminate the "carry-forward" of peanut undermarketings which is allowed under current law;

(3) Place an assessment (likely about $35.00 per ton on all quota peanuts going into loan to offset the administrative costs required to operate the program, with a rebate allowed should the program operation make a profit;

(4) Restore the U.S.D.A. school lunch and food distribution programs' useage of peanuts and peanut products to 1989 levels; and

(5) Reduce import levels of paste and peanut products from foreign countries which do not (or cannot) produce peanuts under the same regime required of U.S. producers in regard to food safety, occupational and environmental safety, and quality -- due to many factors, but especially government regulation of labor standards and pesticide restrictions, peanut farmers in this country have production costs far higher than our competitors, and do not have a "level playing field" necessary to ward off unfair foreign competition.

Another area which must be addressed by the industry regards the propriety of establishing a proper support price level for quota peanuts. The Government Accounting Office report asserts that some 68% of all quota peanuts are currently produced by someone other than than the person who

actually owns the quota. If this figure is correct, then our members would suggest that steps be taken to reduce some of the $200 - $300 per ton rental or lease fees which artificially add to overall quota loan rate determination under the current formula. Having said this, however, we must also remind the subcommittee that we are highly skeptical that any reduction in domestic quota peanut prices would lead to any significant reduction in consumer prices at the retail level.

Further, Mr. Chairman, we believe that much of the criticism of the domestic peanut program is not due to an overwhelming concern about its costs to the taxpayers, but rather that some in the media and several in Congress continue to exploit the false notion that a small number of farmers in this country are being favored and protected and rewarded unduly by the program. You know absolutely this is not the case, Mr. Chairman, and we call upon you and your colleagues on the committee to aggressively combat these falsehoods, as you have many times in the past.

As export producers, we also believe there are ways to expand our foreign markets for peanuts. This increased trading opportunity would further lessen pressures on the domestic peanut program, and would also allow the crop to be grown by more farmers. In this regard, we respectfully suggest the following:

(1) Remove restrictions of sale and lease of peanut quotas across county lines within a State;

(2) Create separate pools for "quota" and "additional" peanuts within each area association, and consider a "joint and several" style of responsibility between the area pools to ensure against costs to the government;

(3) Allow additional peanuts to be utilized for seed purposes -- by allowing the approximately 120,000 tons of seed peanuts required annually to be taken from additionals, we feel there would be no continued temptation for a "black market" in seeds, producers' input costs could be reduced, and the national quota level could be cut back to reflect the new practice.

In conclusion, we strongly believe the elimination of the peanut program would result in an economic disaster for many areas in the United States. And for those who advocate such an approach, we would remind them that many other sectors of the rural economy would suffer great financial stress if the peanut program were to be ended. Peanut farmers pay taxes, create and maintain job opportunities both on the farm and off . . . they contribute heavily to the economy of rural towns and counties, and provide one of the healthiest food products in American diets.

We realize also, Mr. Chairman, that we must be realistic and flexible as farm programs adapt to the new realities of the Federal budget and the world marketplace. We want to work with you and your colleagues in Congress to ensure fairness and understanding not only to farmers, but to the consumer as well. Thank you for your time and consideration.

TESTIMONY

WILBUR GAMBLE

Chairman Rose, members of the Subcommittee on Specialty Crops and Natural Resources, thank you for this opportunity to testify before your subcommittee concerning the U.S. peanut program and losses in 1991.

I'm Wilbur Gamble, a farmer from Terrell County, Georgia and Chairman of the Georgia Peanut Commission. Representing almost half of the nation's peanut production we felt strongly about the need to come before you today to provide what we believe to be the facts. As organizational members of the National Peanut Growers Group we are testifying in support of our national position into which we had input and which we agree to in total.

As we understand it the sole purpose of this hearing is to address government cost of the peanut program and have limited our comments to only issues we feel are related thereto.

As you will see from Exhibit A, a market newsletter published by our Commission in October 1991, this is an issue which has concerned us greatly. At that time, the Commission staff anticipated a loss of $40-60 million to the Commodity Credit Corporation because the 1991 domestic marketing quota was set too high by the Secretary of Agriculture. Our efforts were targeted at educating growers to this potential loss and to stem the flow of quota peanuts going into the loan. Not only were our concerns stated in this newsletter, but in numerous press reports such as Exhibit B from The Albany Herald. It was the Commission's desire to stem grower participation in the quota loan. You will see from Exhibit C that our concerns may not have been fully shared at that time by USDA officials nor do we feel they were shared by most others in the peanut industry. Simply stated, our efforts were directed toward keeping as many quota peanuts out of the loan as possible, and we feel that if we had the help of others in the industry and at USDA that we could have accomplished this task or cut some of the losses to some extent.

To understand such losses in the peanut program, we must first go back and look at the events that led to this excessive cost. In 1990, the peanut poundage quota was increased 8.6 percent to 1,560,000 short tons farmer stock. We feel that even in 1990 the domestic quota was overstated but because of an aberration caused by the drought of 1990 this factor was never tested. Market growth trends at that time were running at less than three percent. With the need for added consideration for the Temporary Emergency Food Assistant Program (TEFAP) which could have accounted for an additional 3.8 percent increase in consumption for TEFAP. This alone should have caused the need for a quota increase of less than 6.8 percent. USDA leans heavily on the Stocks and Processing Report to determine domestic edible use. Prior to 1990 a great deal of education was done in the domestic peanut industry by the National Peanut Council on the need for accuracy and improved reporting in Stocks and

Processing. The Statistical Task Force established by the National Peanut Council impacted significantly on the report thereby making comparisons of one year to the next flawed.

In late 1990, the Peanut Butter and Nut Processors Association, a group of small manufacturers, petitioned the administration to hold an investigation into increasing or ultimately suspending the Section 22 import quota on peanuts based on what we believe to be false concerns. This investigation took place and continued through early 1991. The Department of Agriculture originally determined that no material interference would be caused to the program by the importation of other origin peanuts, but stated that they did not see a need for the importation of such peanuts. Later after a meeting with industry representatives and the economists in USDA, the department did concede that there may be material interference and that the peanuts were not needed based on industry numbers provided to USDA. On July 3, the President signed an executive order allowing for the importation of an additional 100 million pounds of other origin peanuts under the Section 22 quota. This investigation caused great market disruption and the import restrictions were lifted only after the 1991 poundage quota was already determined and the harvest of the 1991 crop was about to begin.

Another failure on the part of the department was to consider the impact of the 1990 drought and what we knew from historical trends. Exhibit D shows the historical consumption and the lagging effect seen after the 1980 drought. It has been proven that there is a lag after a drought period in which consumption takes several years to rebound. Failure to recognize this coupled with (1) the significant increase in the share of undermarketings located in the southeast, where quota deliveries are normally higher than the national average, and (2) significant reductions in the purchase of peanuts and peanut products by the government, and (3) increasing peanut butter imports not covered under Section 22, the Department simply set the domestic quota too high. Another factor which shared in government cost was the failure on the part of the Secretary to establish an additional loan rate which would not cost the government should additional peanuts have to be crushed as they were in significant quantities in the 1991 marketing year.
And 1991 was not the only problem, though it was the major problem in terms of significant government cost.

The quota in 1992 was set 40,000 tons too high. Exhibit E is a decision memorandum for the Secretary from then ASCS administrator Keith Bjerke. You will see that for the 1992 marketing year quota, the department originally proposed a quota of 1,610,000 tons. The manufacturers recommended a quota of least 1,610,000 tons, a recommendation with absolutely no foundation, and growers and shellers recommended a quota of

1,500,000 short tons. The final quota recommendation for 1992 which was eventually accepted by the Secretary was 1,540,000 tons. Currently there are 40,000 tons of unredeemed quota in the loan program. Quota which likely will not be redeemed but we hope the cost of crushing might be liquidated by sales of additional peanuts both for oilstock and hopefully for export purposes. We do feel that the 1993 quota has been set at a more realistic level, however concerns over imported peanut paste continue to plague us.

According to USDA's Oil Crops Situation and Outlook, based on the first four months of the marketing year, it is anticipated that we will import 28 million pounds of peanut butter with a $30 million value this year. Five percent of the domestic peanut butter market will be imported. This trend started four years ago when the Canadian Free Trade Agreement was signed by the President. Canada doesn't even grow peanuts. Now with Mexico coming into the Free Trade Agreement, their peanut production and the potential to greatly increase acreage based on economic incentive, we can anticipate greater increases in imports of peanut butter and ultimately in raw kernels. Seventy-five percent of U.S. peanut butter imports currently come from Canada. This is a figure which is appalling if you consider the fact that the U.S. is the third largest grower of peanuts in the world and the largest exporter.

Exhibit F, which our Commission has prepared helps to understand where we are headed. It gives a history of peanut butter imports and what we would anticipate the future to be. It is our sincere belief that peanut butter imports are causing material interference to the U.S. peanut price support program. What's most alarming is seen in Exhibit G. USDA projects that during the current marketing year the U.S. will become a net importer of peanut butter and exports are made with $325 additional peanuts.

Now with all this said and understanding how the problem came about, we are optimistic that the new Secretary of Agriculture will be favorable toward peanut farmers and will make a sincere effort to make this program work and we might add, at no cost to the government. President Clinton has recommended a 67 percent increase in the marketing assessment on peanuts, another factor which will generate funds so that peanut farmers and shellers do our part for the federal budget. Most of all we must understand that the peanut program works and works well for everyone. According to USDA numbers published in the Food Review magazine (Exhibit H), the farm value share of the retail price of one pound of peanut butter is only 24 percent. That number compares with wheat flour, shortening, and apple juice. It is 3 percent less than for all foods, 4 percent less than dried beans and raisin, 7 percent less than natural cheddar cheese, 36 percent less than Grade A large eggs, and only 4 percent higher

than staple items such as long grain rice and margarine. Those figures were based in the 1991 calendar year which included 7 months of the 1990 marketing year, a marketing year from a drought stricken peanut crop when a few producers received near record prices for their commodity. Under normal conditions we would anticipate that this farm value percentage would even go down.

It is not our opinion that the program has any serious structural problems. What is important is for USDA to work more closely with the various segments of the industry to more realistically set a quota which will not be too high and cause any significant government losses. If the quota is set right with the marketing assessment proposed by President Clinton, the U.S. peanut program will become a money maker for the federal government.

It is our belief that the Secretary should review the language concerning the National Poundage Quota and the establishment of the quota in the peanut section of the 1990 Farm Bill and should use great care in understanding the definition of domestic edible peanuts. (See Exhibits I & J)

Domestic edible peanuts are defined by the law as use for milling to produce domestic food peanuts other than those described in Paragraph 2. Paragraph 2 refers to crushing and seeds and use on farm. In determining the definition of milling, we went to the book entitled Peanut Science and Technology (See Exhibit K). This book is an industry standard and is published by the American Peanut Research and Education Society, a society of professional researchers primarily USDA and university along with other industry officials. Peanut milling is first defined in parenthesis in the title on Page 590 as shelling. We quote "the peanut milling process encompasses many operations that may include pre-cleaning, pre-sizing, shelling, separation, sorting, seed treatment, handling, and packaging." These are peanuts that would then be passed on to make finished products. That is an important definition as this defines the quantity of peanuts needed by U.S. peanut shellers to satisfy their needs, not peanuts needed by the peanut manufacturers.

We know that the committee will hear many proposals today. We encourage you to continue your wariness of snake oil salesmen who will try to tamper with the structure as it now exists.

During the 1990 farm bill manufacturers recommended a reduction in the loan advance. To have done this would have only served to lower the price paid to the grower. Because of the fact that many producers are financed in part by the local buying point or the sheller, tampering with the loan structure could open the door to great opportunity for abuse.

Some forces in the industry will likely suggest a lowering of the support rate.

This would serve to only reduce the price paid to producers while it is doubtful that consumers would see much change in the price of the finished product. After all, how do you pass along fractional cents saving on a candy bar with less than 2 cents worth of peanuts in it in the first place. Find two candy bars that are similar except that one has peanuts and the other doesn't; what's the price difference?

University researchers tell us that based on the oligopolistic nature of the peanut manufacturing industry it is unlikely that consumers would ever realize any significant price reductions based on lowering the farm value of peanuts.

What will happen if you tamper with the support rate is that you will openly surrender our market to China where their fertilizer is raw sewage, DDT the pesticide of choice, and where human rights are non-existent. We'll give our market to Argentina where they still use dinoseb without worry for worker sterility and can get new chemicals like flusilazole because their concerns for the environment and for food safety don't exceed their desire to make a quick buck.

In a recent FDA study marked Exhibit L you'll notice that in 1991 FDA found no violative residues of any sort in U.S. origin peanuts while 12% of imports of foreign origin peanuts had illegal residues. Our peanuts are the safest in the world but that comes at a cost.

There are simply too many factors, beyond the control of the U.S. farmer, which make other producing countries lower cost producers. In 1991, according to cost of production figures from the University of Georgia, based on half our production being irrigated, our average cost of production before land, quota, and white mold and nematode treatments was $570 per ton.

We're sure there will be other ideas presented today but how many will be based on fact and how many on selfish speculation?

Our Commission is charged by the laws of our state with the obligation of presenting only the merits of the issue at hand, presentation of only the facts.

The facts are simple:

1. To change the law in the middle of a farm bill puts our entire program at greatly increased risk.

2. Our program will never pose significant cost to the CCC as long as the quota is set accurately by USDA and as long as the additional support rate is not overstated causing losses on crushing of additional peanuts.

3. The Section 22 loophole which allows peanut butter in has caused material interference to the program and needs to be sewn shut.

Whatever else you may hear as speculation today these are the facts.

Everything considered, we feel that our program works well. It works for the farmer, the industry, and the consumer, and when the intent of the law is achieved by USDA, at no cost to the taxpayer. Thank you, again, for this opportunity to come and present our case.

(Attachments follow:)

GPC Newsletter October 1991

$40-$60 Million Loss To the Peanut Program

The GFA Peanut Association estimates that approximately 2 quota for every additional are being placed in the loan in the southeast. Using these estimates you can calculate that approximately 90,000 tons of quota may have already been placed into the loan in just the southeast.

These ratios of peanuts going to the loan could continue to hold up because we have seen these ratios increasing since harvest began. We could be looking at 200 000 tons of quota in the loan just in the southeast. Across the U S we could be looking at easily 250,000 tons of quota in the loan Therefore it can be estimated that we are setting ourselves up for a $40-$60 million loss to the Commodity Credit Corporation for the national peanut program.

For many in the industry this kind of loss is unacceptable and there are already prognosticators saying that these kinds of losses spell an automatic doom for the national peanut program. Growers need to keep all their options available in marketing, however, the consequences of this quantity of quota being placed in the loan needs to be fully understood. If a grower is putting quota in the loan because he feels he can in some way pressure the shellers, these growers need to be reminded that the marketing situation which we are presently facing is such that shellers might prefer quota going into the loan because it strengthens their marketing position with the manufacturer on previously contracted peanuts.

September USDA Crop Estimate

The last crop estimate was released September 12, representing conditions the first of September. Production continues to be forecast at a record high 2,511,600 tons, down only slightly from the August forecast. Estimated production in the southwest was increased 2% from August 1. In the Virginia-North Carolina area, the estimate was decreased 4% from last month and the southeast was decreased only 2% from the August 1 estimate. Georgia's September estimate was reduced 100 pounds per acre from the August estimate to 2,700 pounds per acre for a total production of 1,167,750 tons. Alabama's yield was increased 100 pounds from the August estimate to 2,600 pounds per acre, for an estimated production of 374,400 tons. Florida remained the same as the August estimate at 2,700 pounds per acre for a total of 124,200 tons.

Peanuts Included in PL-480 and GSM-102

At a meeting on September 12 with USDA, a Georgia Peanut Commission representative reported success in convincing USDA to place peanuts, oil, and meal on the Docket for approved PL-480 countries. This is the federally funded Food for Peace program. We are pleased to announce that processed products are also included on the Docket for the GSM-102 program which makes available federal loan guarantees.

Import Quota Wrap-Up

After many months of discussion, which helped to totally destroyed our market, the President decided to increase U.S. peanut import quota to 100,000,000 pounds for the 1990-91 marketing year The deadline for bringing the peanuts into the country was July 31. Only sixteen applications for inspections were received from major importers for a total import quantity of 14,539,647 pounds. Imported peanuts were still being sampled and graded at the end of August, with approximately 20 percent failing to meet U.S. quality standards for grade and aflatoxin.

Imported Peanut Butter

Imports of peanut butter into the United States continue to climb. For the first eleven months of the current marketing year, August 1990 through June 1991, 5,871 metric tons of peanut butter with a value of $9,124,268 were imported into the United States. Of that total, 3,190 metric tons (54%) were imported from Argentina.

This compares with total imports of 2,664 metric tons during the previous marketing year (12 month period from August 1989 through July 1990). Imports from Canada totaled 1,658 metric tons and from Argentina were 980 metric tons during 1989-90.

Peanut butter produced from U.S. quota peanuts, or from other origin peanuts, may come into the U.S. in unrestricted quantities. The Section 22 import quota for peanuts includes shelled, in shell, blanched, salted, or prepared or preserved peanuts, but it does not include peanut butter. The current import duty on peanut butter is three cents per pound.

Record Attendance for Georgia Peanut Tour

Over 250 representatives of the peanut industry attended the 1991 Georgia Peanut Tour, August 27-29. Manufacturers, processors, chemical representatives, media, and other industry representatives from across the United States, Canada, Europe, and Asia took part in the tour.

The tour, sponsored by the Georgia Peanut Commission in cooperation with the University of Georgia and the National Peanut Research Lab, included a cross section of field conditions, research, handling, and processing facilities across the peanut belt.

Because Georgia produces nearly 50% of the U.S. peanut production, the tour positions us to demonstrate to much of the industry that we do in fact produce the best quality peanuts in the world here in the southeast. Within two days we were able to show first-hand the most up to date crop conditions just prior to harvest and we were able to show the cutting edge of quality innovations in research and what was in store for the future.

Exhibit A

ALBANY HERALD
OCTOBER 17, 1991

Koehler Predicts

Peanut Producers To Flood Market

By JIM HENDRICKS
Herald Staff Writer

MOULTRIE, Ga. — Despite lower yield predictions, the United States wil produce too many peanuts for the market and could cause the U.S. peanu program to lose $40 million, a spokesman for a growers' group says.

Don Koehler, executive director of the Georgia Peanut Commission baseu at Tifton, said this week that 2.2 million-2.3 million tons likely will be harvested this year, flooding the domestic and export markets, which only need about 1.9 million tons.

"We're looking at a 400,000 ton surplus," said Koehler, who was working a commission exhibit at the Sunbelt Agricultural Exposition. "We're going to have too many peanuts."

U.S. Department of Agriculture figures released through the Georgia Agricultural Statistics Service at Athens late last week estimated nationwide production at 4.94 billion pounds. That would be a record, despite a 2 percent decline from the September estimate.

It would also be a 37 percent increase over the poundage realized from the drought-riddled 1990 crop.

USDA said yields nationwide should reach 2,513 pounds per harvested acre, down 45 pounds per acre from September estimates but up 522 pounds per acre from '90. The estimated 1.96 million harvested acres would be a 9 percent increase over '90.

Officials blamed the lower estimates on a dry September, which came on the heels of an excessively wet August.

In Georgia, USDA officials said growers can expect 2,600 pounds per acre, down 100 pounds from September estimates. Production on the state's 865,000 harvested acres is expected to reach 2.25 billion pounds, 67 percent better than last year's yield of 1.35 billion pounds.

"The 26 (hundred pound estimate) is too high," Koehler said. "It's going to be closer to 2,400."

But that won't be enough to keep peanuts from flooding the market. The situation has gotten to the point where farmers are putting the peanuts in the federal loan program at a ratio of 2:1, quota to additionals.

"We've never seen that kind of situation before in a surplus year, he said. "It concerns me, but I don't know what to tell a farmer when he feels like it's the only option he has."

The result likely will be that the growers will see no return from peanuts placed in the loan program since they are required to first absorb the brunt of any losses. But the federal government may have to absorb a loss of around $40 million on the program anyway, he said.

EXHIBIT B

Gwinett Daily News

Daily News, Monday, October 21, 1991

Peanut program's loss disputed

Farmers overreacting, official says

The Associated Press

WASHINGTON – Southeastern peanut growers may be overreacting in warning that this year's bumper crop could result in a loss of up to $60 million for the government's peanut price support program, a key Agriculture Department official says.

"I don't currently see that," Dallas Smith, director of the peanuts and tobacco division of the Agricultural Stabilization and Conservation Service, said in an interview.

"We are concerned, but we are not as concerned at this point as those doomsday individuals are that losses of that particular amount are guaranteed."

The Georgia Peanut Commission set off alarm bells throughout the peanut belt last week with a newsletter reporting that the unusually large volume of peanuts being placed under government loan could end up costing the taxpayers $40 million to $60 million.

Such a price tag on a program that's already under attack by the Bush administration and unpopular in Congress could well spell its doom, said Rep. Charles Hatcher, D-Ga., chairman of the House agriculture subcommittee on peanuts and tobacco.

"The program is a difficult one to maintain legislatively and one way we've been able to do that is to reduce the cost of it to almost nothing," Hatcher said. "That's a major selling point, so we don't need to have it cost a lot for that reason."

The huge volume of peanuts being turned over to the government stems in large part from a decline in consumer demand that began last year when the drought in the Southeast damaged the 1990 crop and drove up peanut prices.

With demand down, farmers were unable to sell their peanuts at prices higher than those guaranteed by the peanut program and simply turned them over to the government.

This year, farmers who hold government quotas to produce peanuts are guaranteed $642 a ton, while those who grow "additionals" outside the quota system are guaranteed $150 a ton.

Exhibit C

DOMESTIC FOOD CALCULATION
79 - 80 - 81 - 82 - 83 - 84

			% Change Previous Year	% Change From '79
1979 - 80	Kernels	1,292,900,000		
		x 1.33		
		1,719,557,000		
		/ 2000		
		859,778.5 st	N/A	-0-
1980 - 81	Kernels	1,075,700,000		
		x 1.33		
		1,430,681,000		
		/ 2000		
		715,340.5 st	-16.8	-16.8
1981 - 82	Kernels	1,225,500,000		
		x 1.33		
		1,629,915,000		
		/ 2000		
		814,957.5 st	+13.9	- 5.2
1982 - 83	Kernels	1,308,760,000		
		x 1.33		
		1,740,650,800		
		/ 2000		
		870,325.4 st	+ 6.8	+ 1.2
1983 - 84	Kernels	1,311,210,000		
		x 1.33		
		1,743,909,300		
		/ 2000		
		871,954.65 st	+ .2	+ 1.4
1984 - 85	Kernels	1,341,950,000		
		x 1.33		
		1,784,793,500		
		/ 2000		
		892,396.75 st	+ 2.3	+ 3.8
1985 - 86	Kernels	1,421,810,000		
		x 1.33		
		1,891,007,300		
		/ 2000		
		945,503.65 st	+ 5.9	+ 9.98

EXHIBIT D

DECISION MEMORANDUM FOR THE SECRETARY

FROM: Keith Bjerke
Administrator

Subject: Determination of National Poundage Quota for 1992-Crop Peanuts.

BACKGROUND:

The November 21, 1991, Federal Register provided notice of a proposed MY 1992 quota of 1,610,000 short tons.

Growers and shellers recommended a quota of 1,500,000 st.

Manufacturers recommended a quota of at least 1,610,000 st.

DISCUSSION

Interagency Commodity Estimates Committee (ICEC) data and accepted public comments support a quota of 1,540,000 st.

ESTIMATED USES FOR 1992-CROP QUOTA PEANUTS

Item	Quota in short tons	
	Proposed	Final
DOMESTIC EDIBLE:		
Domestic Food	1,211,000	1,186,000
On farm and local sales	21,000	21,000
Subtotal	1,232,000	1,207,000
SEED	119,000	106,000
RELATED USES:		
Crushing residual	189,000	158,000
Shrinkage and other losses	49,000	48,000
Segregation 2 and 3 loan transfers to quota loan	20,000	20,000
Quota product exports	1,000	1,000
Subtotal	259,000	227,000
TOTAL	1,610,000	1,540,000

It is recommended that ICEC estimates be supported and that the 1992 quota be set at 1,540,000 st.

Approved ______________________ Date ______________

EXHIBIT E

imports have increased 2 percent from the 1991 to 1992 marketing year and will increase approximately 3 percent from the 1992 to the 1993 marketing year.

In reviewing historic peanut butter imports into the United States we find, according to numbers from the Department of Commerce and Customs data, peanut butter imports went from 3,506,120 pounds in the '87 MY to 19,586,118 pounds in the '91 MY ending July 30, 1992. The increase between '87 MY to '88 MY was 51 percent, increase from '88 MY to '89 MY was 11 percent, '89 MY to '90 MY was 144 percent, and '90 MY to '91 MY was 37 percent. In addition to these yearly increases, we have seen the first two months of the '92 MY increase 1,538,246 pounds over the first two months of the previous marketing year for an increase of 44 percent. If we take the past four marketing years' growth and assume 1992 will continue at a 44 percent growth and drop the high and low during this five year period being considered, we in fact believe a growth of peanut butter imports would actually represent the mean of these three remaining averages, which will be 44 percent. We believe peanut butter imports have been underestimated over the next two years by 42 and 41 percent, respectfully, and peanut stocks and processing has been overestimated by a corresponding quantity which is approximately 19,000 farmer stock tons. If this overestimation is in fact realized and we apply a conservative crushing cost to quota of $450 per ton, this would result in approximately an $8.5 million material interference to the national peanut program.

The third area we recommend adjustments is in the amount of

EXHIBIT F

Figure 6
Cottonseed Oil Prices at Premium to Soybean Oil

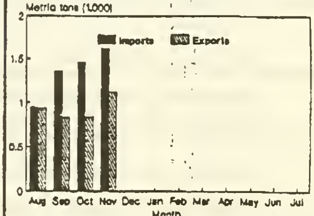
Cents per pound

U.S. Imports of Peanut Butter Are Up

Based on monthly U.S. import/export trade data of the Department of Commerce, since 1984, the annual quantity of peanut butter imported by the United States has risen several-fold to 8,884 metric tons for the August 1, 1991 to July 31, 1992 period. Exports have risen also, to 9,983 metric tons in 1991/92 from 4,571 in 1984/85. Barring an unforeseen dramatic turnaround in peanut butter trade, the United States may become a net importer in the 1992/93 peanut crop-year.

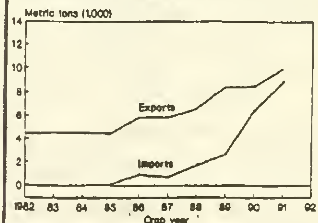
Thus far in the 1992/93 season, with monthly data available for August through November, the United States has imported more peanut butter than it has exported in each month. If this pattern persists, imports in 1992/93 may constitute 4-5 percent of domestic peanut butter use.

Figure 7
U.S. Peanut Butter Trade, Aug.-Nov. 1992



Product units.

Figure 8
U.S. Trade in Peanut Butter, 1982-1991



Product units.

United States Department of Agriculture

Economic Research Service

OCS-36
January 1993

Oil Crops

Situation and Outlook Report

USDA's estimate and 643 million below the 1991/92 crop. The Crop Production: 1992 Summary placed 1992/93

EXHIBIT G

Table 3
Animal Products Returned to Farmers the Greatest Share of Retail Prices

Food	Retail price	Farm value	Farm value share of retail price
	—Dollars—		Percent
All foods	N/A	N/A	27
Animal products:			
Eggs, Grade A large, 1 doz	99	59	60
Beef, Choice, 1 lb	2 88	1 60	56
Chicken, broiler, 1 lb	88	44	49
Milk, 1/2 gal	1 37	.54	40
Pork, 1 lb	2 12	.78	37
Cheese, natural cheddar, 1 lb	3 55	1 09	31
Fruits and vegetables:			
Fresh—			
Oranges, California, 1 lb	89	.36	40
Lemons, 1 lb	1 23	.38	31
Potatoes, Northeast, 10 lbs	2.66	.76	28
Apples, Red Delicious, 1 lb	88	24	27
Grapefruit, 1 lb	62	.13	21
Lettuce, 1 lb	61	09	14
Frozen—			
Orange juice concentrate, 12 fl oz	1.38	.53	38
Broccoli, cut, 1 lb*	1.18	26	22
Peas, 1 lb*	.99	.14	14
Corn, 1 lb*	1.00	.13	13
Green beans, cut, 1 lb*	1.02	.11	11
Canned and bottled—			
Apple juice, 64-oz bottle*	1.48	.34	23
Apple sauce, 25-oz jar*	.95	18	19
Peas, 17-oz can*	48	.09	19
Corn, 17-oz can*	46	.09	19
Pears, No. 2-1/2 can*	1.19	.22	18
Peaches, cling, No. 2-1/2 can*	1.11	.18	16
Green beans, cut, 17-oz can*	45	.06	14
Tomatoes, whole, 17-oz can*	53	.05	10
Dried—			
Beans, 1 lb*	.65	.18	28
Raisins, 15-oz box*	1.41	.39	28
Crop products:			
Sugar, 1 lb	.40	.15	37
Flour, wheat, 5 lbs	1 17	28	24
Shortening, 3 lbs	2.61	.61	23
Margarine, 1 lb	.87	.17	20
Rice, long grain, 1 lb	.50	10	20
Prepared foods:			
Peanut butter, 1 lb	2 15	.51	24
Potato chips, regular, 1-lb bag	1.96	.31	16
Pork and beans, 16-oz can*	.41	.06	14
Frozen chicken dinner, fried, 11 oz*	1 21	.15	12
Frozen potatoes, french fried, 1 lb	85	.10	12
Bread, 1 lb	.71	.04	6
Corn flakes, 18-oz box*	1.67	.09	5
Oatmeal, regular, 42-oz box*	2 58	.14	5
Corn syrup, 16-oz bottle*	1.38	.05	4

*January-June 1991 average N/A = Not applicable

jumped 11 percent when pork supplies were limited and prices were up.

Fluctuations in the marketing spread for beef and pork partly reflect retail merchandising practices designed to maximize total meat department sales and profits. Retailers may minimize price changes for customers by not fully adjusting margins with each change in commodity and marketing costs. Added revenues from one meat may offset lower revenues from another for a period. But over time, each meat must generate its share of profits, and margins will adjust to cover all costs. (For more information about meat price spreads see, "Meat Price Spreads Are Not Proof of Price Gouging," in the October-December 1991 issue of *FoodReview.*)

The price spread for poultry rose only 2 percent in 1991, compared with an increase of 7 percent in 1990. The small rise resulted from large supplies forcing down retail prices.

The price spread for dairy products increased 5 percent in 1991, significantly below the over 14-percent jump in 1990. For the first quarter of 1991, the spread was about 10 percent higher than a year earlier as farm prices dropped. But, steady retail prices and a slight increase in the farm value of milk caused the spread to narrow in the second half of the year. By the fourth quarter, the spread was lower than a year earlier.

Cereals and bakery products accounted for 20 percent of the market basket. The spread for this category widened 5 percent in 1991, the smallest increase since 1988. This small increase reflected slowly rising processing and marketing costs and lower farm value of ingredients. ■

EXHIBIT H

TITLE VIII—PEANUTS

SEC. 801. SUSPENSION OF MARKETING QUOTAS AND ACREAGE ALLOTMENTS.

The following provisions of the Agricultural Adjustment Act of 1938 shall not be applicable to the 1991 through 1995 crops of peanuts:

(1) Subsections (a) through (j) of section 358 (7 U.S.C. 1358(a)–(j)).

(2) Subsections (a) through (h) of section 358a (7 U.S.C. 1358a(a)–(h)).

(3) Subsections (a), (b), (d), and (e) of section 359 (7 U.S.C. 1359 (a), (b), (d), and (e)).

(4) Part I of subtitle C of title III (7 U.S.C. 1361 et seq.).

(5) Section 371 (7 U.S.C. 1371).

SEC. 802. NATIONAL POUNDAGE QUOTAS AND ACREAGE ALLOTMENTS.

The Agricultural Adjustment Act of 1938 is amended by inserting after section 358 the following new section:

"SEC. 358-1. NATIONAL POUNDAGE QUOTAS AND ACREAGE ALLOTMENTS FOR 1991 THROUGH 1995 CROPS OF PEANUTS.

"(a) NATIONAL POUNDAGE QUOTAS.—

"(1) ESTABLISHMENT.—The national poundage quota for peanuts for each of the 1991 through 1995 marketing years shall be established by the Secretary at a level that is equal to the quantity of peanuts (in tons) that the Secretary estimates will be devoted in each such marketing year to domestic edible, seed, and related uses. Notwithstanding any other provision of this paragraph, the national poundage quota for a marketing year shall not be less than 1,350,000 tons.

"(2) ANNOUNCEMENT.—The national poundage quota for a marketing year shall be announced by the Secretary not later than December 15 preceding the marketing year.

"(3) APPORTIONMENT AMONG STATES.—The national poundage quota established under paragraph (1) shall be apportioned among the States so that the poundage quota allocated to each State shall be equal to the percentage of the national poundage quota allocated to farms in the State for 1990.

"(b) FARM POUNDAGE QUOTAS.—

"(1) IN GENERAL.—

"(A) ESTABLISHMENT.—A farm poundage quota for each of the 1991 through 1995 marketing years shall be established—

"(i) for each farm that had a farm poundage quota for peanuts for the 1990 marketing year;

"(ii) if the poundage quota apportioned to a State under subsection (a)(3) for any such marketing year is larger than the quota for the immediately preceding marketing year, for each other farm on which peanuts were produced for marketing in at least 2 of the 3 immediately preceding crop years, as determined by the Secretary; and

"(iii) as approved and determined by the Secretary under section 358c, for each farm on which peanuts are produced in connection with experimental and research programs.

"(B) QUANTITY.—The farm poundage quota for each of the 1991 through 1995 marketing years for each farm described in

EXHIBIT I

opposed to poundage quotas with respect to the crops of peanuts produced in the 5 calendar years immediately following the year in which the referendum is held, except that, if as many as two-thirds of the producers voting in any referendum vote in favor of poundage quotas, no referendum shall be held with respect to quotas for the second, third, fourth, and fifth years of the period.

"(2) PROCLAMATION.—The Secretary shall proclaim the result of the referendum within 30 days after the date on which it is held.

"(3) VOTE AGAINST QUOTAS.—If more than one-third of the producers voting in the referendum vote against quotas, the Secretary also shall proclaim that poundage quotas will not be in effect with respect to the crop of peanuts produced in the calendar year immediately following the calendar year in which the referendum is held.

"(e) DEFINITIONS.—For the purposes of this part and title I of the Agricultural Act of 1949 (7 U.S.C. 1441 et seq.):

"(1) ADDITIONAL PEANUTS.—The term 'additional peanuts' means, for any marketing year—

"(A) any peanuts that are marketed from a farm for which a farm poundage quota has been established and that are in excess of the marketings of quota peanuts from the farm for the year; and

"(B) all peanuts marketed from a farm for which no farm poundage quota has been established in accordance with subsection (b).

"(2) CRUSHING.—The term 'crushing' means the processing of peanuts to extract oil for food uses and meal for feed uses, or the processing of peanuts by crushing or otherwise when authorized by the Secretary.

"(3) DOMESTIC EDIBLE USE.—The term 'domestic edible use' means use for milling to produce domestic food peanuts (other than those described in paragraph (2)) and seed and use on a farm, except that the Secretary may exempt from this definition seeds of peanuts that are used to produce peanuts excluded under section 359(c), are unique strains, and are not commercially available.

"(4) QUOTA PEANUTS.—The term 'quota peanuts' means, for any marketing year, any peanuts produced on a farm having a farm poundage quota, as determined in subsection (b), that—

"(A) are eligible for domestic edible use as determined by the Secretary;

"(B) are marketed or considered marketed from a farm; and

"(C) do not exceed the farm poundage quota of the farm for the year.

"(f) CROPS.—Notwithstanding any other provision of law, this section shall be effective only for the 1991 through 1995 crops of peanuts.".

SEC. 803. SALE, LEASE, OR TRANSFER OF FARM POUNDAGE QUOTA.

The Agricultural Adjustment Act of 1938 is amended by inserting after section 358a the following new section:

"SEC. 358b. SALE, LEASE, OR TRANSFER OF FARM POUNDAGE QUOTA FOR 1991 THROUGH 1995 CROPS OF PEANUTS.

"(a) IN GENERAL.—

"(1) AUTHORITY.—Subject to such terms, conditions, or limitations as the Secretary may prescribe, the owner, or operator with the permission of the owner, of any farm for which a farm poundage quota has been established under this Act may sell or lease all or any part of the

EXHIBIT J

erage grade factors for crop years 1976, 1977 and 1978 are presented in Table 8 for runner type peanuts.

A provision of the USDA Peanut Marketing Agreement (Peanut Administrative Committee, 1978) requires that all of the seed from each sample of farmers stock peanuts be examined for visible growth of the aflatoxin-producing mold *Aspergillus flavus* (Dickens, 1977). Lots found to contain seed with visible *A. flavus* growth are classified Segregation III. Lots with none of these seed but with more than 2% damaged seed or more than 1% concealed damage caused by rancidity, mold or decay are designated Segregation II peanuts. All other peanuts are designated Segregation I.

Under special arrangements, when peanuts are in short supply, Segregation II peanuts may be processed for edible purposes if the shelled peanuts meet grade regulations and pass aflatoxin tests. Essentially all Segregation III peanuts are processed for oil stock and the meal is restricted to fertilizer and other nonfeed uses. Segregation II and Segregation III peanuts may be processed for seed or oil stock, but they usually are processed for oil.

PEANUT MILLING (SHELLING)

The peanut milling process encompasses many operations that may include precleaning, presizing, shelling, separation, sorting, seed treatment, handling, and packaging. The types of operations needed will depend upon the intended use of the peanuts. The 3 primary uses of peanuts are for food (inshell

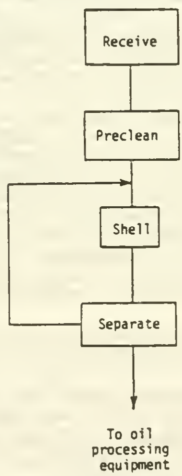


Fig. 15. Primary operations when shelling peanuts for oil processing.

EXHIBIT K

EXHIBIT L

APPENDIX A

Analysis of Domestic Surveillance Samples by Commodity Group in 1991

Commodity Group	Total No. of Samples	Samples with No Residues Found, %	Samples Violative, % Over Tolerance	Samples Violative, % No Tolerance	Commodity Group	Total No. of Samples	Samples with No Residues Found, %	Samples Violative, % Over Tolerance	Samples Violative, % No Tolerance

Commodity Group	Total No. of Samples	Samples with No Residues Found, %	Samples Violative, % Over Tolerance	Samples Violative, % No Tolerance
Peppers, other	17	59	0	0
Pumpkins	23	9	0	4
Squash	81	65	0	0
Tomatoes	178	79	0	0
Other fruits used as vegetables	17	53	0	0
Artichokes	10	90	0	0
Asparagus	74	93	0	0
Bok choy	57	81	0	2
Broccoli	169	80	0	0
Cabbage	178	88	0	0
Cauliflower	117	91	0	0
Celery	99	36	0	0
Chinese cabbage	49	86	0	0
Collards	69	38	0	0
Endive/chicory	56	84	0	4
Kale	78	50	0	1
Lettuce	692	56	<1	<1
Mustard greens	48	29	2	4
Spinach	116	43	0	3
Swiss chard	11	55	0	0
Turnip greens	41	7	0	2
Other leaf/stem vegetables	49	86	0	4
Mushroom/truffle products	29	93	0	0
Carrots	140	74	0	3
Onions, bulb	68	96	1[a]	0
Onions, green	17	76	0	6
Onions, other	12	83	0	0
Parsnips	11	27	0	18
F. Other				
Filberts/hazel nuts	15	100	0	0
Peanuts	38	61	0	0
Pecans	25	88	0	0
Other nuts, edible seeds, & related products	7	100	0	0
Vegetable oil seed stock	11	55	0	0
Crude vegetable oil	13	65	0	0
Refined vegetable oil	7	100	0	0
Beverage bases	9	100	0	0
Wine	64	38	0	0
Honey, comb	39	46	0	0
Honey, strained	39	97	0	0
Honey, other	25	96	0	0
Other food sweeteners	8	100	0	0
Baby food, dessert	14	100	0	0
Baby food, fruit juice/drink	124	98	0	0
Baby food, other	17	100	0	0
Other food products	7	100	0	0
Total	**462**	**81**	**0**	**0**
A–F Total	**8281**	**64**	**<1[a]**	**<1**

[a] Includes samples that have both residue(s) over tolerance and residue(s) with

APPENDIX B

Analysis of Import Surveillance Samples by Commodity Group in 1991

Commodity Group	Total No. of Samples	Samples with No Residues Found, %	Samples Violative, % Over Tolerance	Samples Violative, % No Tolerance
Garden/green/sweet peas	165	48	4	8
Mung beans	19	95	0	0
Pigeon peas	10	90	0	0
String beans	117	48	0	6
Other beans, peas, & corn	60	63	0	8
Chinese eggplant	40	57	2	5
Cucumbers	131	44	0	3
Eggplant	52	65	0	4
Okra	63	79	0	8
Peppers, hot	431	43	2	3
Peppers, sweet	532	79	<1	<1
Pumpkins	37	92	0	0
Squash	298	59	0	2
Tomatillos	39	54	0	3
Tomatoes	457	64	0	2
Other fruits used as vegetables	68	79	0	6
Asparagus	151	91	<1	0
Bamboo shoots	12	100	0	0
Bok choy	12	42	0	8
Broccoli	66	74	0	2
Broccoli raab	26	69	0	0
Brussels sprouts	14	86	0	0
Cabbage	36	75	0	0
Cauliflower	24	92	0	0
Celery	28	46	0	0
Chicory	61	72	0	2
Chinese broccoli	12	67	0	0
Chinese cabbage	14	79	0	0
Endive/escarole	64	87	0	2
Kale	10	20	0	0
Lettuce	40	60	0	2
Mustard greens	11	55	0	9
Radicchio	140	86	0	5
Spinach	25	64	0	4
Other leaf/stem vegetables	86	64	0	15
Mixed vegetables	6	67	0	0

Commodity Group	Total No. of Samples	Samples with No Residues Found, %	Samples Violative, % Over Tolerance	Samples Violative, % No Tolerance
Potatoes	67	72	0	1
Radishes	20	75	0	0
Red beets	12	83	0	0
Rutabagas	12	67	0	0
Scallions	86	51	0	0
Shallots	16	100	0	0
Sweet potatoes	35	97	0	0
Taro	11	91	0	0
Turnips	11	91	0	0
Water chestnuts	20	100	0	0
Other root/tuber vegetables	62	97	0	0
Vegetables, dried or paste	174	80	0	3
Vegetables with sauce	34	97	0	0
Other vegetables/vegetable products	21	86	0	0
Total	4311	68	<1	3
F. Other				
Whole spices	25	80	0	4
Other spices, extracts/flavors	12	58	0	8
Cashews	51	63	0	10
Chestnuts	10	100	0	0
Coconuts	11	91	0	0
Peanuts	40	70	0	12
Other nuts	28	93	0	0
Nut products	13	77	0	8
Edible seeds	20	70	0	10
Crude vegetable oil	12	83	0	0
Refined vegetable oil	21	95	0	0
Beverage bases, fruit	24	79	0	0
Coffee & tea	75	93	0	0
Water & ice	38	100	0	0
Wine	471	74	<1	3
Other alcoholic beverages	10	100	0	0

***STATEMENT OF SOUTHWESTERN PEANUT SHELLERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
MARCH 10, 1993***

I am Syd Reagan, General Counsel for the Southwestern Peanut Shellers Association.

Our members are located in Texas, Oklahoma, and New Mexico. We purchase peanuts directly from farmers and help the U. S. Department of Agriculture in carrying out the peanut price support program. We acquire the peanuts, clean, shell, and grade them, and sell the raw milled peanuts to manufacturers of peanut products in the United States and foreign countries. We are vitally interested in maintaining a successful peanut price support program that includes minimum costs to the government.

The basic reason for losses on the peanut price support program, particularly on the 1991 crop, has been that the peanut marketing quota has been set by USDA at too high a level. This has resulted in a surplus of peanuts for domestic edible and seed uses.

With the quota being properly set, losses should be minimal.

The major cause for the about $80 million loss on the 1991 crop was that the Department assumed that there would be a quick rebound to normal consumption following the temporary short supply from the 1990 crop. A quick rebound did not occur.

Present legislation provides that the quota shall be set to meet "domestic edible, seed, and related uses." For the quota to be set at a realistic level, changes need to be made in the factors considered by USDA to determine the quota. Additional factors affecting the supply of peanuts must be added to those now used in setting the quota.

Table 1 shows the calculation used by USDA in determining the 1993 Quota.

The following four additional factors can and should be considered by USDA under present legislation. No change in legislation is needed; only a more common-sense approach in interpreting present legislation is needed.

1. Carry-over into the new marketing year must be explicitly considered.

2. Carry-over into the next marketing year must be explicitly considered.

3. Under-harvesting must be explicitly considered.

4. Explicit consideration must be given to the importation of peanut butter, peanut paste, other peanut products. The importation of peanut butter and of peanut paste

(added together) has been increasing at an alarming rate. Table 2 shows the escalation of these imports that are displacing peanuts produced in this country.

At the present time imports of peanut butter and peanut paste are not limited under Section 22 and pay an import duty of only 3 cents a pound, which is trivial when the price of US domestic edible peanuts is compared with the price of foreign peanuts.

It would be desirable for this import duty to be substantially increased.

At the present time, less than 2 million pounds of shelled peanuts or shelled equivalent peanuts may be imported into the United States as allowed by the International Trade Commission for Sec. 22. Unfortunately, there are no limitations on the imports of peanut butter and peanut paste. Such limitations would be extremely helpful.

It must be recognized that if NAFTA and/or GATT are approved by Congress as now proposed, Section 22 will no longer be available to protect domestically produced peanuts under the quota system. Each year more foreign peanuts would enter the United States and would replace domestically produced peanuts. Consequently, with NAFTA and/or GATT it will be necessary in the 1995 legislation to substantially reduce or eliminate the present minimum quota (1,350,000 tons) provided for in current legislation. Were this not done, the losses would eventuall become intolerable.

It is our hope that in reviewing NAFTA and GATT, Congress will require the necessary safeguards to protect the price support program, and the quality of any peanuts and peanut products imported into the United States. US consumers must be protected from imports that contain harmful pesticides, other harmful chemicals, and/or aflatoxin. American peanut growers must be protected against peanut diseases that might be brought in by peanuts later used as seed in the United States.

It is our hope that with the new administration, the Office of Management and Budget will do a much better job in expediting the review of program proposals. With the past administration, that office has delayed intolerably in responding to proposals sent them by the US Department of Agriculture. These delays have in no way been the fault of USDA.

The help of Congress is needed on these matters.

Thank you.

I will be happy to respond to questions.

(Attachment follows:)

TABLE 1 QUOTA CALCULATION USED BY USDA FOR THE 1993 CROP

Item	Short tons
Domestic Edible.	
Domestic food	1,146,000
On farm and local sales	21,500
Subtotal	1,167,500
Seed	109,500
Related uses:	
Crushing residual	153,000
Shrinkage and other losses	46,000
Segregation 2 and 3 loan transfers to quota loan	20,000
Subtotal	219,000
Total	1,496,000

Source: Federal Register

TABLE 2.-- U.S. IMPORTS OF PEANUT BUTTER AND PASTE*

Period	Number of Metric Tons	Percent Change From Preceding Period
8/87 - 7/88	721	--
8/88 - 7/89	1,732	140
8/89 - 7/90	2,664	54
8/90 - 7/91	6,490	144
8/91 - 7/92	8,834	36
8/91 - 12/91	3,615	--
8/92 - 12/92	6,766	87
December '91	598	--
December '92	1,384	131

*Source: USDA, Foreign Agricultural Service

STATEMENT OF SOUTHEASTERN PEANUT ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
MARCH 10, 1993

Mr. Chairman, my name is Evans Plowden. I am General Counsel for the Southeastern Peanut Association. Our association appreciates the opportunity to participate in this hearing on what is undoubtedly a very important matter, both for the industry and for the country.

The Southeastern Peanut Association is an association of commercial peanut shellers located in the Southeastern United States (Georgia, Florida and Alabama). Our members handler over 60% of the quota peanuts produced in the United States and well over 80% of the additional peanuts.

We understand that one of the purposes of this hearing is to discuss the costs of the peanut price support program to the Commodity Credit Corporation and perhaps to suggest ways to prevent that cost in the future.

Please let me say at the outset that I am fully aware that some suggestions that may be made by our association and others will, of necessity, impact upon peanut growers rather than upon ourselves. Shellers do not directly participate in the price

support program, other than acting as agents for CCC. However, the operation of the program does have an effect on shellers. We recognize, though, that changes in the program that have an adverse effect would most likely impact more directly upon growers than upon us. Therefore, we don't mean to be presumptuous in discussing the impact on our grower friends, however, it is our understanding that the Committee wishes to have suggestions from all parties. It is in that spirit that we present these suggestions.

It is fairly clear that a reduction in the amount of quota pounds, a reduction in the price support or a reduction in the percentage of price support advanced to producers at harvest would reduce the exposure of the Commodity Credit Corporation and therefore, reduce the possibility of loss. It is undoubtedly true that the market recovery from the 1990 drought has not been as strong as we would all have hoped, and therefore the quota has been set too high since that time. It is also undoubtedly true that the price of peanuts to the snack food consumer has increased so that peanuts are not as competitive with alternative snacks as they once were. The USDA stocks and processing report for January 1993 shows peanut butter consumption to be down 20% and snacks down 23% from the January 1992 report. A lower price would absorb more peanuts into the commercial market as well as obviously reduce the exposure of CCC.

Along the same vein, we are all aware that on top of the quota poundage any under marketings up to 10% of the national quota is allocated and may be marketed in any one year. Consequently, there is always the possibility of the real quota being

10% higher than the poundage set by the USDA. Therefore, an argument can certainly be made that the prospective under marketings should be considered by the Secretary of Agriculture in setting the upcoming year's annual quota.

Mr. Chairman, I know that you are aware that something referred to as peanut paste is being imported into the United States in dramatically increasing amounts. I think it is logical to say that one pound of imported paste or peanut butter imported into the United States automatically displaces one pound of shelled U.S. quota peanuts. To use a tired phrase, we are afraid "you ain't seen nothing yet." The number of pounds of U.S. quota peanuts displaced by peanut paste or peanut butter in the past may pale in comparison to what we see in the future. If the increases in the future continue at the same rate of the recent past, we are going to see huge quantities entering the United States.

Presently major manufacturers do not use this imported paste in significant amounts. However, with the price differential so large, it is inevitable that all major manufacturers will examine the issue. They all prefer U.S. peanuts, but the price differential is so great that economics are forcing them to look at the alternative. We don't know what the upper limit of that demand is, but it could be as high as four or five hundred thousand farmers stock tons annually. It will probably be 75,000 farmers stock tons this year.

The primary exporters of this commodity into the United States in the past few years have been Canada and Argentina. However, Chinese processors have opened

an office in this country and are soliciting orders for peanut butter. We have furnished the Committee staff with one of these inquiries. If the Chinese enter this market, their presence together with the already increasing Argentine and Canadian presence will displace huge quantities of U.S. quota peanuts.

Under the current status of the President's proclamation under Section 22, peanut butter is not included in the import limitation. We can either deal with this issue by including peanut butter and peanut paste in the import limitation or, if that is not possible, reduce quota poundage accordingly. If we don't do something, the quantities will increase and the loss to CCC will as well.

While the purpose of this hearing is not the quality of peanut butter being supplied to the American consumer, we should say parenthetically on the peanut paste issue that we are quite concerned that this product is not undergoing the rigorous testing procedures that American peanuts and peanut butter undergo. Therefore, totally aside from the cost issue, someone should examine the quality issue as it relates to this imported product.

As the Committee knows, the farm legislation has previously provided for cross compliance in various area association pools. The purpose of this cross compliance was to reduce the possibility of cost to the Commodity Credit Corporation. We now have cross compliance between additional and quota pools and cross compliance between area pools. However, all of these pools are limited to each crop year. Therefore, the possibility and, in fact, the likelihood exists of a pool paying significant

dividends in one year while the next year produces significant losses. Of course, producer participants in the pool get the dividends and the CCC gets the losses. I believe that is exactly what happened in crop years 1990 and 1991. In any case, if there was cross compliance over more than one year, the likelihood of these large swings between profit and loss would be reduced.

Mr. Chairman, it goes without saying that NAFTA, if passed in its current form, will greatly exacerbate the potential for loss to the Commodity Credit Corporation. I believe this Committee has been furnished with data from the Georgia Peanut Commodity Commission illustrating that after only a couple of years peanuts entering the United States from Mexico will undercut the price of quota peanuts even after paying the tariff. Obviously some of those peanuts are going to displace American quota peanuts and with the obvious effect of increasing cost to the Commodity Credit Corporation.

On the subject of NAFTA, we must warn the Committee that some agreement or provision must be made to address the quality of the imports coming into the United States under NAFTA. Inspection procedures simply must be established that are as effective as those required of U.S. peanuts.

Mr. Chairman, we are today at a critical point for the entire peanut industry in the United States. What we do in the next few years will determine the long term economic health of shellers, growers, and the entire industry. It goes without saying shellers must have growers. We cannot exist without the domestic supply

produced by American farmers. We cannot compete with subsidized production from the Far East. We believe that it is necessary now to take a long term view of what basic structural change may be necessary in order to insure the viability of this industry into the next century.

We do not believe that the viability we all seek can be accomplished with prices of quota peanuts at the current levels. Basically, the peanut program is a sound one, but it cannot ignore the market itself. We must react to the economic realities of the market.

We all have avoided this issue for a number of years. Because of the issues discussed above, particularly the peanut paste issue, we simply cannot avoid talking about it any longer. The support price of peanuts is simply too high. We can take a short term, Band-Aid approach to the problems we currently face. We can reduce quota because of reduced demand and because of increased importation of peanut paste. That will solve the problem for one (1) year. As long as the support price remains so high, the demand for lower priced product will continue to increase and is in danger of exploding.

We can, however, Mr. Chairman, face this issue, make the appropriate changes to the price and secure the long term viability of all of us. The beneficial effects of lowering the support price are many and perhaps not all together obvious. The market will expand because prices will be lower. It is logical to assume that we will regain markets lost to imported paste because American manufacturers prefer the

American product. The cost to the government will be reduced, if not eliminated, and therefore the criticism based on cost will be eliminated. Concerns about poor quality of imported product will be eliminated since that product cannot compete with the quality of American peanuts and is only being introduced because of the tremendous economic advantage it now holds.

Further, we think there is a strong and logical argument to be made that if the program is modified to recognize the market forces by reducing the support price somewhat, the entire industry will be in a much better position to resist the effects of NAFTA and GATT should they come about. The only reason foreign peanuts come into the U.S. is because of price. Manufacturers will pay a premium for U.S. peanuts because of their quality and availability. However, there is a limit to that premium and we believe that the American peanut has now passed that limit. It is our suggestion that we bring the American peanut back within the limit of a premium that makes sense to manufacturers, their customers, and all of our ultimate customer, the consumer.

To take a different approach and just continually reduce quota because demand for American peanuts keeps falling means that we are accepting the fact that we all are participating in a dying industry. Our association does not believe that is the proper approach and believes that everyone, growers, shellers, manufacturers, and consumers will be much better served by a modification of the program that reduces the support price, increases the demand for our product and makes it competitive in the market place, not only for its traditional uses, but new uses as well.

We are at a crossroad. We can shrink and protect an ever decreasing quota poundage or we can face the realities of the market place, meet them head on and assure the viability and growth of this industry into the next century. Obviously, Mr. Chairman, our association prefers the latter.

TESTIMONY

DOYLE FINCHER, VICE PRESIDENT
WESTERN PEANUT GROWER'S ASSOCIATION

My name is Doyle Fincher, Vice President, Western Peanut Grower's Association. I am a peanut producer from Gaines County Texas, and I am submitting this statement to supplement the record of the recent hearing of the Specialty Crops and Natural Resources Subcommittee. The Western Peanut Grower's Association is an organization that represents peanut producers in west Texas, an area that produces high quality peanuts much of it additional peanuts.

The peanut price support program has been the subject of much recent criticism. This has been brought on in large part as a result of recent significant losses to the program. The witnesses that have testified have explained the reasons for these losses. We support the peanut price support program and wish it continued. It is good for producers and for consumers if operated properly. To that end we wish to make a few recommendations that we believe will strengthen the program and prevent much of the losses from occurring in the future.

1. To begin with we believe that the carry-forward of under-marketings should be eliminated. This will enable the Department of Agriculture to make far more accurate calculations of the national peanut quota that is needed to satisfy the demand for peanuts for domestic edible use. This proposal will avoid a situation such as occurred in 1991 when the Secretary, in computing the national peanut quota for the year, was blind-sighted by the over-production of quota peanuts due entirely to the unexpectedly large production of the under-marketings. If a person is not able to produce peanuts because of a natural disaster, such as a drought, he is protected through the legislation that preserves his quota base and by his qualifying for crop insurance or disaster payment program benefits, without the necessity to provide in addition the ability to make up for the shortfall by expanding production in the subsequent year.

2. Another measure that we suggest to reduce criticism of the program is to permit the sale or lease of poundage quotas across county lines. As the General Accounting Office pointed out owners of more than one-half of the quota pounds do not grow peanuts themselves but receive income from selling or renting their quotas to others. Under the current law, a person can maintain a quota for three years before being faced with a loss of the quota. For example, a producer can release the quota one year and lease the quota to another owner or operator within the same county for another two years. Furthermore, the USDA rules are such as to minimize the quota loss when it must reduce a persons quota for under-marketings. It is our recommendation that the quota should be put into the hands of those who can produce -- this would be encouraged if the sale or lease or lease of poundage quotas were permitted across county lines.

3. A third recommendation is that the pools established for quota and additional peanuts should be maintained as separate pools just as they were prior to adoption of the 1985 farm bill. Thus, if losses are incurred on the quota pool, it should not be offset by gains realized from the additional peanut pool. The exception would be for cases where

a producer produced both quota and additional peanuts, in which case any losses incurred on that producer's quota peanuts would be offset to the extent there were gains on his production of additionals.

We believe that gains on the additional pool should not be used to offset losses in the quota pool, particularly since many of these quota pool losses are a result of poor quality peanuts having been placed under loan. Most of the gains on the additionals are attributable to gains realized on sales of additionals for crushing and are not the result of additionals having displaced quota peanuts for domestic edible use. It is clear to us that this does not occur because of the mark-up required on sales of additionals from CCC stocks under the buy-back provision. This causes a sheller to look first to quota peanuts before resorting to the buy-back provision for additionals from CCC stocks. It is only when there is a shortage of quota peanuts that additionals are purchased under the buy-back provision for domestic edible use. In these circumstances producers of additionals should be able to realize the full extent of the gains from these sales.

4. We have another proposal that will encourage producers to sell their quota peanuts into commercial channels instead of placing their peanuts under loan, thereby saving potential costs to the Government. We would suggest that when a loan is obtained, the producer obtain an advance of 80 to 85 percent of the loan rate and not the entire loan amount at that time. The balance should be remitted only after the peanuts have been disposed of and the Commodity Credit Corporation has made the requisite deductions for its administrative expenses. This would assure that the program is in fact maintained as a no net cost program by encouraging marketings through commercial channels.

5. Another suggestion that we wish to make to assist in reducing the costs of the program is to require that when farmer stock peanuts are of poor quality and grade as segregation 3 peanuts, they should not qualify for a domestic edible peanut price support loan. They cannot be sold for domestic edible use and must be crushed or otherwise disposed of resulting to losses to the price support program. In other commodity programs, if the commodity is of such poor quality that it cannot be used for human consumption it is discounted to its market price or otherwise made ineligible for the loan.

6. Finally, we wish to echo the concerns of many of those who have testified regarding the increase in the amount of peanut butter and peanut paste that is entering the United States. Five percent of the domestic peanut butter market is attributable to imports, and if recent trends continue these amounts will increase in the future. Much

of this product originates in Canada from peanuts imported from overseas, mainly China. We believe that the facts are such as to justify a request by the Secretary of Agriculture for initiation of a Section 22 proceeding to place restraints on imports of peanut paste and peanut butter on the grounds that they are adversely affecting the price support program. We also believe that the incentive to ship these peanuts to the United States will be reduced if the national peanut quota is set at proper levels and the recommendations that we have made are adopted.

Thank you for the opportunity to present our views to the subcommittee.

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